

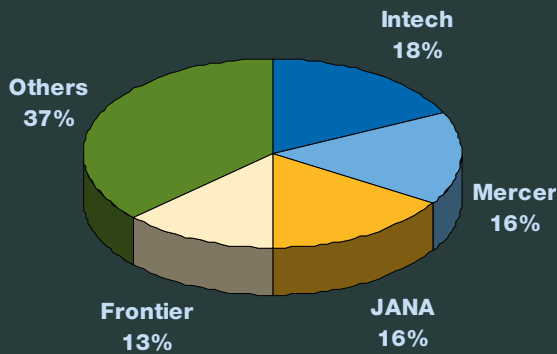
# Trends in Global Consulting – An Asset Manager’s View

*Presented By:*

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*December 15, 2003*

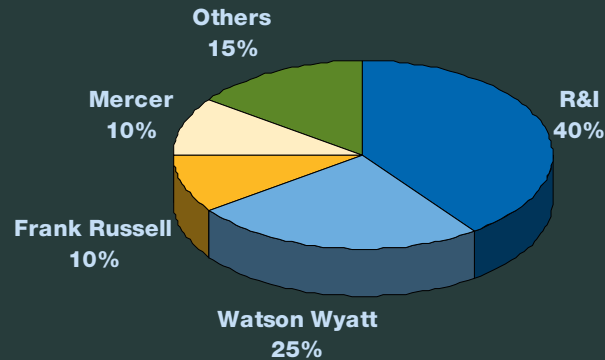
# Global Market Share – Why Look Back?

## Australia



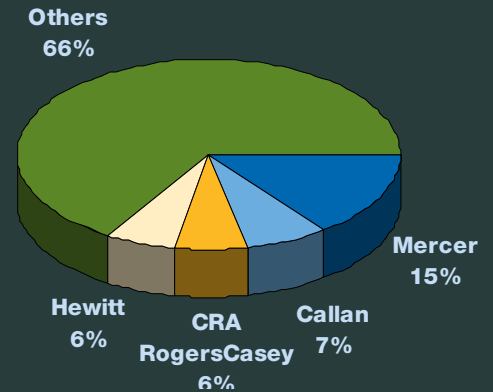
**AUM: \$134.5 B**  
**Growth Rate: 15%**

## Japan



**AUM: ¥79 T**  
**Growth Rate: 4–5%**

## U.S.



**AUM: \$19.4 T**  
**Growth Rate:**

As of March 2003  
 Source: Rainmaker, Investor Weekly, Lazard

Consultant share as of November 2003,  
 AUM as of March 2003.  
 Source: Lazard estimates

Source: Thomson Financial Pension  
 Fund Consultant Survey 2003.

# Trends in Global Consulting

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- I. Pressures Facing Consulting Businesses
- II. Trends in the Markets
- III. Trends in Client Issues
- IV. Trends Among Money Managers
- V. Outlook

# I. Pressures Facing Consulting Businesses

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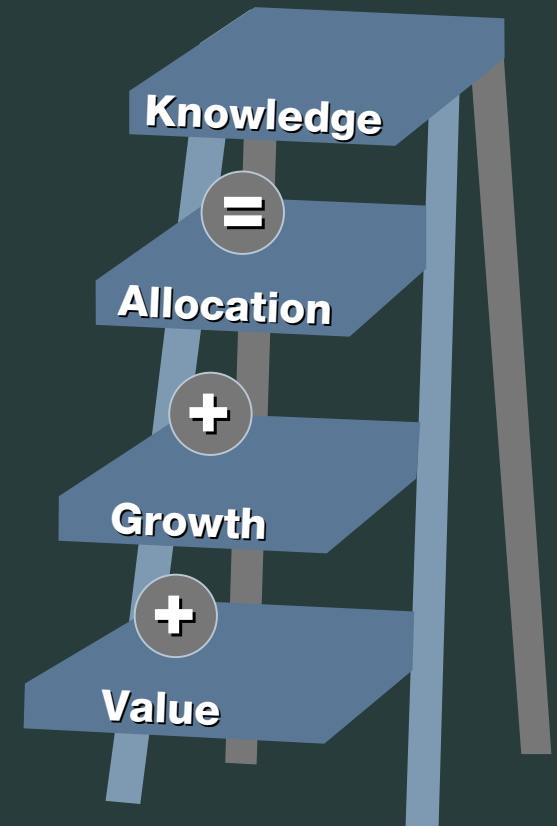
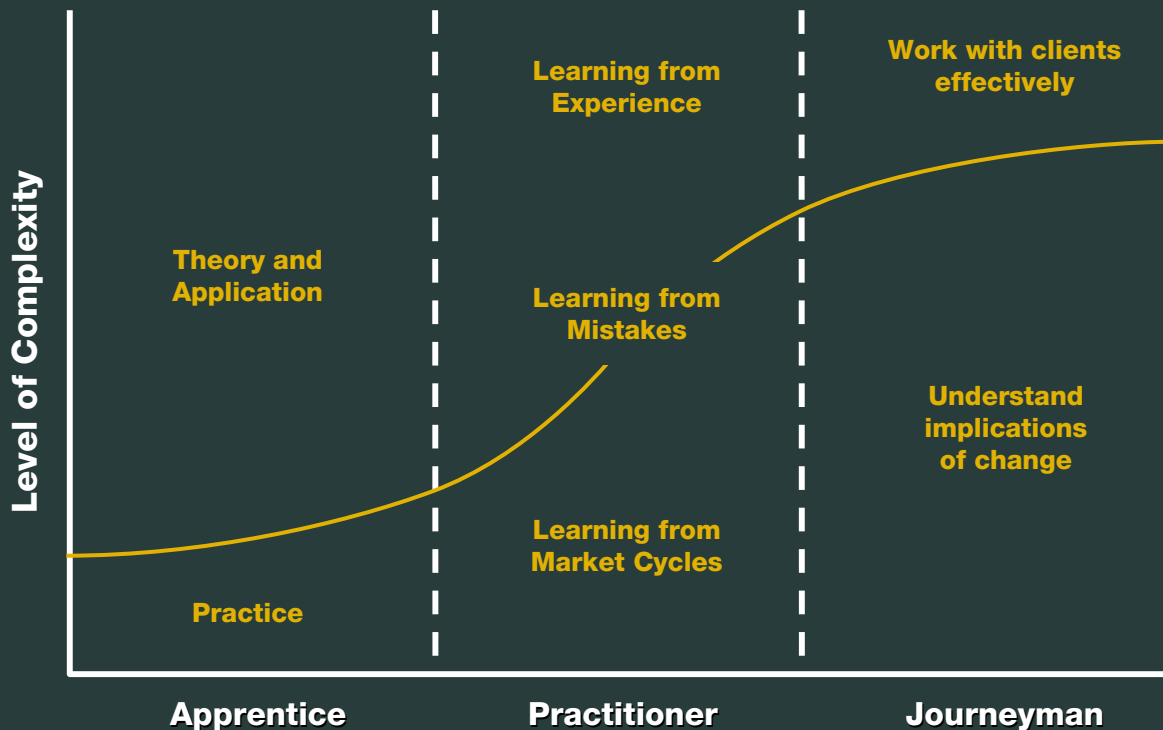
- Turnover
  - ◆ Staff
  - ◆ Clients

# What has Happened to Intellectual Leadership?

## Overemployment and the Learning Curve

## The Learning Step Ladder in Post-1998

### The Learning Curve-Pre-1998



# I. Pressures Facing Consulting Businesses

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- Turnover
  - ◆ Staff
  - ◆ Clients
- Intellectual leadership
- Profitability
- Conflicts of interest

# Profitability and Conflict of Interest Issues

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## A. Profits are under pressure

- ◆ Low barriers to entry
- ◆ Fixed rather than asset based fees
- ◆ Difficulty in obtaining and retaining talent
- ◆ Costs of Globalization

## B. Low profitability has led to:

- ◆ Push work down to lower levels
- ◆ Alternative sources of income outside of traditional advice
- ◆ Exiting low margin businesses (e.g., administration, record keeping)
- ◆ Implemented Consulting: Manager-of-Manager/Funds-of-Funds

## C. Consultants must address their own conflicts:

- ◆ Advisory versus Money Management
- ◆ Conferences
- ◆ Consulting to investment managers

## D. Appearance of objectivity

- ◆ Do consultants have vested interests?
- ◆ Who's product is more profitable? Theirs or competitor?

# I. Pressures Facing Consulting Businesses

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- Turnover
  - ◆ Staff
  - ◆ Clients
  - ◆ Use of multiple consultants
- Intellectual leadership
- Profitability
- Conflicts of interest
- Disorderly attempts to Globalize — consistency of advice
- Business model
  - ◆ Generalist vs. Specialist
  - ◆ Low barriers to entry
- Internet — consultant in a box
- Complexity of research

# II. Trends in the Markets

Bull market → Irrational exuberance → Irrational despair → ?



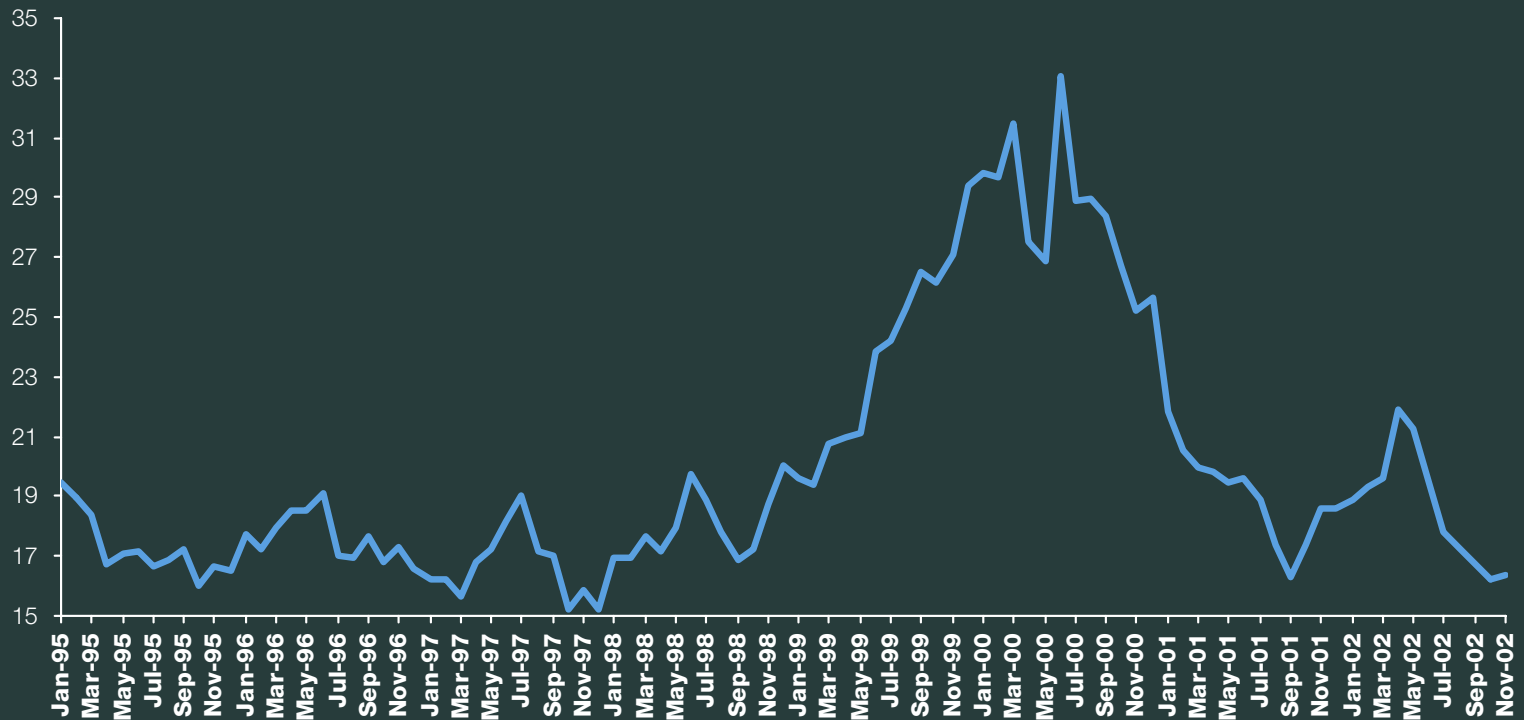
	1 year	3 years	5 years	10 years	15 years
<b>MSCI World</b>	-19.9%	-16.7%	-2.1%	6.3%	6.2%
<b>MSCI World Growth</b>	-19.9%	-21.7%	-3.2%	4.8%	5.2%
<b>MSCI World Value</b>	-19.9%	-12.0%	-1.7%	7.4%	7.0%
<b>LAM Global Select</b>	-17.2%	-7.5%	-1.4%	9.8%	11.7%
				(Blend)	(Blend)

Past performance is not indicative of future results.

# A Once in Thirty-Year Event Excessive Style Volatility

## Interquartile PE Spread SSB World PMI

P/E Point Differential (X)



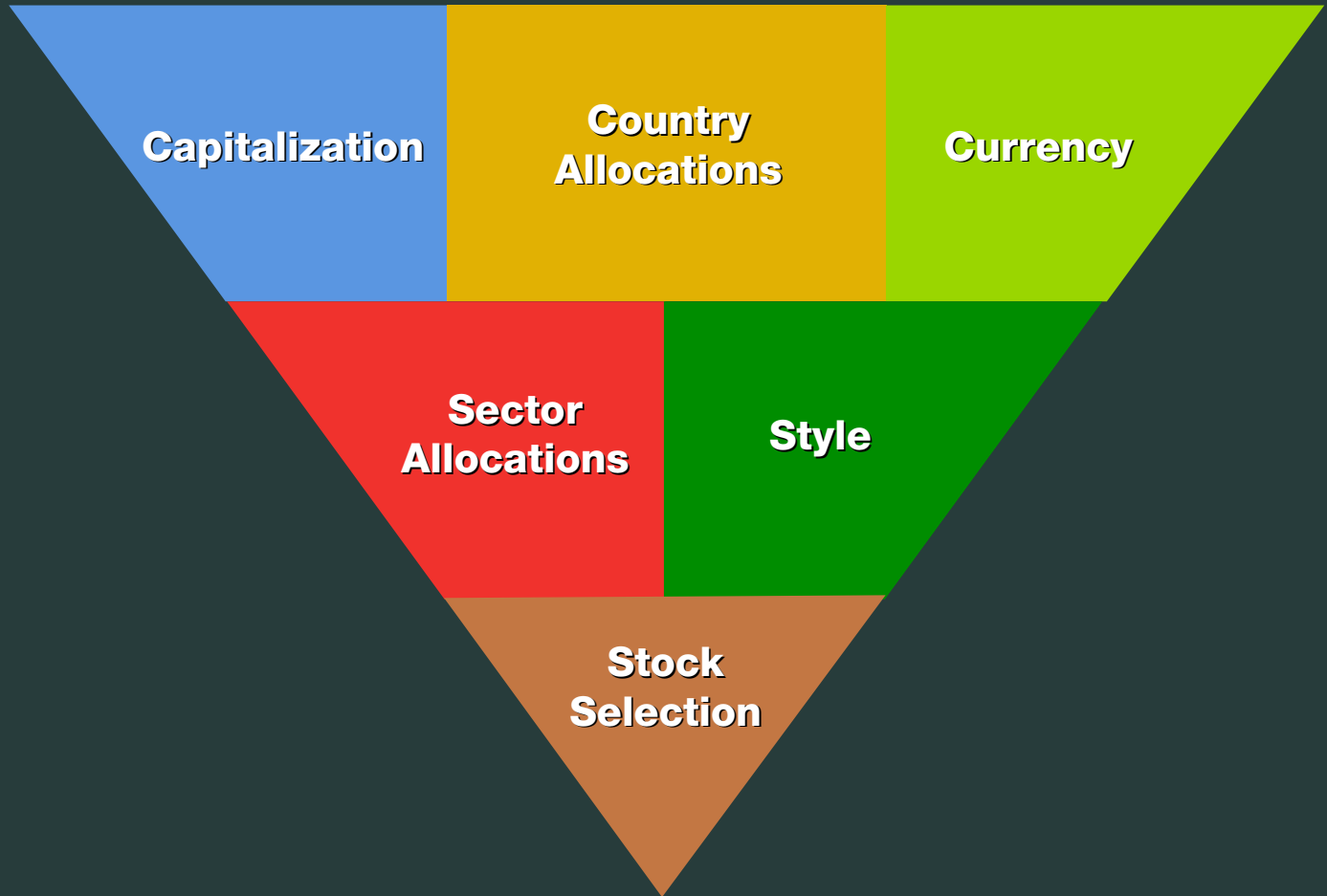
Source: SSMB

Past performance is not indicative of future results

# Style is not the Only Source of Risk and Return

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All are potential  
drivers of out-  
performance



# III. Trends in Client Issues

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- Consultant usage

# Consultant Usage

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## By Plan Size

Large plans are more likely to hire the services of a consultant

Plan Sponsors, Foundations & Endow.	Percent Using Consultants
> \$100 million	47.4%
> \$500 million	66.4%
> \$1 billion	70.3%
> \$5 billion	78.6%
> \$10 billion	83.5%

## By Plan Type

Public plans and endowments are more likely to hire the services of a consultant

Plan Type	Percent Using Consultants
Foundations	25.51%
Corporates	41.56%
Hospitals	47.39%
Unions/Taft-Hartley Plans	51.35%
Misc. Fund Types	64.52%
Endowments	70.40%
Public/Government Plans	78.48%

# Consultant Value Added — An Australian Example

- 3 of 12 consultants client median outperformed the 3-year benchmark
- Over longer periods, consultants in Australia added an average of 20 basis points, net of fees

## Asset Consultant Performance

	Median Return (%)	$\Delta$ in Market Share 2001–2003 (%)
Consultant A	6.7	1
Consultant B	5.2	3
Consultant C	4.9	0
Consultant D	4.8	-2
Consultant E	4.6	0
Consultant F	4.0	0
Consultant G	3.9	-2
Consultant H	3.8	-4
Consultant I	3.4	9

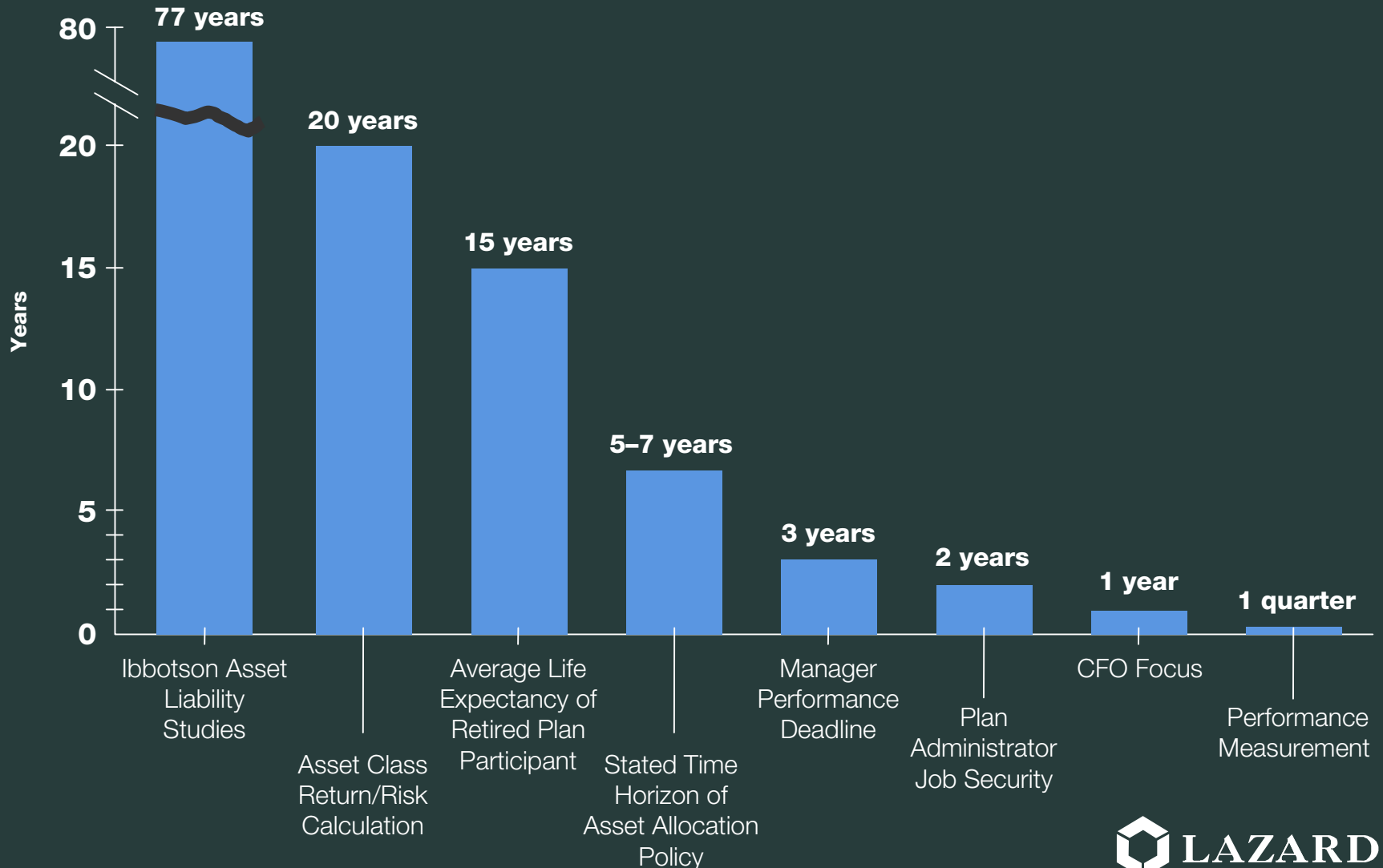
# III. Trends in Client Issues

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- Consultant usage
- Time horizon

# The Incredible Shrinking Time Horizon

## What happened to long-term investing?



# III. Trends in Client Issues

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- Consultant usage
- Time horizon
- Absolute versus relative returns

# Absolute Versus Relative Returns

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- Is this just a Bear Market phenomenon?
- Poor equity market performance & low interest rates have reduced client funded rates
  - ◆ Plan contributions increasing/becoming more likely
  - ◆ Driving more ALM studies
  - ◆ More manager evaluation and search activity
- Liability matching
- Interest in investing in hedge funds
  - ◆ Clients are looking for advice from their *consultant*

# III. Trends in Client Issues

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- Consultant usage
- Time horizon
- Absolute versus relative returns
- Pension time bomb
  - ◆ U.S. — Underfunded liability
  - ◆ Japan — Low birth rate
    - Rising age expectancy
    - Shrinking labor pool
  - ◆ Europe — “pay as you go”

# Pension Time Bomb

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Chapter headings from an April 2002 Commerzbank report on pension reforms in Europe

- Huge flow of funds
- The problem
  - ◆ Off-balance sheet liabilities
  - ◆ Pay as you go deficits: growing out of proportion
  - ◆ Pay as you go is too generous
- The reforms
  - ◆ “Pay more, work longer, get less”
- Dealing with funding—short fall risk
- Companies under pressure to contribute more
- Improving performance control
- Pension capital flows
  - ◆ More foreign assets
  - ◆ Less public bonds

# IV. Trends Among Money Managers

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- Scandals
  - ◆ Regulatory
  - ◆ More questions in RFPs asking for more detail regarding
    - Audits
    - Internal controls
    - Compliance systems
    - Research
    - Portfolio detail
    - Organizational data
- Hiring staff from consultants

# Just a Few Examples of Recent Legal and Compliance Questions

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- Summarize your firm's policies related to late trading of your mutual funds as they relate to both internal and external parties. Identify when these policies were originally adopted, last amended, and any material changes that have been implemented within the past year.
- How does the company insure compliance with its policies on market timing trades? Who, in your organization is responsible for insuring compliance with policies on market timing and restrictions on late trading?
- Do you permit hedge funds to invest in your funds?
- Do you have or did you previously have any agreements in place that provided timing capacity in any of your funds, including any to which you serve as a subadvisor?
- What are the processes in place to monitor time stamps of trades? Do you look through to the individual participant level? How do you handle omnibus accounts?

# V. Outlook

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- Industry will continue to face challenges
- Consultants are reacting to changing business climates by redefining their business models—sticking to those areas which bring in returns and therefore clients
- Consulting firms will need to continue to differentiate themselves, keep up with trends and explore new investment strategies
- Trend toward multiple consultants
- Investment managers will continue to be challenged differentiating themselves in the eyes of the consultant as consultants remain the most important gatekeepers