three years ago, Adkins was an investment consultant at Towers Watson.

"I don't know the direction of nominal and real yields," he continues. "But, I can model the consequences of hedging our liabilities. I describe using ranges as a dimmer instead of an on/off switch."

In terms of ranges for asset allocation, some consultants are happy to talk about their preferences in recent years.

Gavin Orpin, head of trustee investment consulting at Lane Clark & Peacock (LCP), highlights its calls on credit as a great success: "Credit in this context means investment grade, high yield and/or loans. Taken together, this is where we've seen most opportunities in recent years. We often see this as an alternative to equities, although we have also been advising clients to take money out of liability-matching portfolios due to low yields," he says.

"We've put credit risk on and off quite regularly. In 2009 we were sharply on. Mid 2010 to the start of 2011 we rowed back but at the beginning of 2012 we were back on. Now in 2013 we are starting to encourage clients to take some out of the portfolio."

While every consultant will caveat any recommendations with reference to the specifics of any client scheme, Orpin says that LCP measures its universe of clients' returns versus the UK overall and reckons the former have outperformed the latter with significantly reduced risk over the past five years.

For Aon Hewitt, Belgrove goes one better on credit. He reckons in 2006 (the then) Hewitt saw the sub-asset class as expensive and recommended clients divest. In a frank admission, he adds that the switch was nothing to do with the credit crisis – "we didn't see it coming" – and everything to do with relative value. "Spreads were just too tight." More boldly than LCP, AonHewitt was overweight credit December 2008 and reversed that recommendation a year later. In summer 2010 it was back in bullish opinion and held this view until last summer.

"Dynamism means being aware of the factors that drive returns in asset classes across your portfolio and making adjustments based on medium-term views"

John Stannard

In real estate, Belgrove is most proud of holding off until the third quarter of 2009 to push clients to buy more of this asset class (primarily direct holdings). On equities, he reckons that AonHewitt called for a reduction in equities in 2008 well enough but was too cautious in 2009 when the rebound came.

At Mercer, Sykes points to a series of papers disseminated to clients in the wake of Lehman Brothers' demise on how to benefit from market dislocation. These included Investment Grade Credit (March 2009), Convertibles (May 2009), Recovery UK Property (July 2009).

Sykes is phlegmatic about that period's unusually abundant, "unlikely to be repeated" opportunities: "Since then, our guidance to clients has been more generic, reflecting the environment in which we find ourselves: record low interest rates and bond yields, anaemic economic growth, plentiful liquidity but high uncertainty." He nevertheless pinpoints some specific opportunities in the area of private debt including mezzanine and real estate debt.

Adkins has no doubts about the ability of consultancies to generate worthwhile ideas. Where he feels opportunities have been lost is in their ordering and prioritisation. This is probably more a fault of their clients' governance.

"When I came to the Pensions Trust, part of the remit was to put in place processes and personnel so that we could make the most of the ideas the consultant was giving us," he says. In the past, the investment department had just one employee, concentrating on performance reporting and manager changes. This year the team will number eight. "It's the investment department's responsibility to implement strategy, as agreed with the investment committee, not the consultants'," says Adkins.

Talking heads

IPE put some questions to pension consultants and fiduciary managers across Europe. Here is a selection of their views

The questions

1 What is your firm's structure and process for the generation of strategic investment views and beliefs?

2 What does your firm do to align its incentives with the longer-term interests of its clients?

3 Which professional qualifications do you think are most relevant and useful for an investment consultant, and should clients be concerned if their consultant doesn't have them?

John Belgrove, partner, investment consulting, Aon Hewitt, UK

1. Our global investment committee, which comprises senior individuals from around the firm worldwide, is accountable for defining, owning and communicating the firm's guiding core investment beliefs. Ideas are generated across the global practice and all our investment professionals are encouraged to bring forward new ideas. A fundamental part of our ideas generation in the UK is our ideas development forum, which comprises representatives from our manager research, risk modelling, global asset allocation research and client consulting teams. Ideas can be developed both internally and externally. The forum's remit is to review topical issues, market developments and to analyse new investment ideas. Our UK Investment Committee consists of three senior partners and a senior consultant [whose] mandate is to help to prioritise big picture thematic ideas. The UKIC commissions in-depth research into topics of significant strategic interest for our clients. Where appropriate, this research is extended through use of external academic parties.

2. Financial incentives to behaviour are an important component of an effective solution but they need to be aligned with our employer's overall strategy. Each lead consultant has targets relating to client satisfaction but not to individual client revenue nor profitability. Teams have aggregate revenue targets and business units monitor overall profitability. Other objectives typically relate to the employee's personal development as well as their management and development of others.

3. Typically our investment consultants and support staff hold one or more of the following: Fellow of the Institute and Faculty of Actuaries,

Chartered Financial Analyst, Investment Management Certificate, Pensions Management Institute and Financial Planning Certificate. However, we also recruit senior individuals from industries (such as asset management) that meet experience, knowledge and reputation standards that conform to the level we and the regulators require to deliver authorised advice. Authorisation for everyone is reviewed annually.

The people in our investment practice have a great depth and diversity of backgrounds including fund managers, private equity managers and analysts, economists, treasurers and derivatives traders. Our policy has been to recruit specialist employees who have 'real world' experience.

Frits Bosch, Bureau Bosch, The Netherlands

1. In the Netherlands asset consultants serve as a countervailing power. Decisions are taken by the fiduciary manager and the client, not by the consultant. It is not up to the consultant to say that the asset manager has a wrong or good view. We are just critical.

2. Be careful with long term thinking because in the long term we are all dead. As I see it a pension fund has primarily to take care of the assets, and asset management is mostly short term business. Although investments themselves are done for the longer-term in the portfolio, they will be ousted as soon as short-term developments require it.

3. Yes, they should have qualifications and should be scrutinised. It is ridiculous that anybody can say: "I am an asset consultant for the institutional market."

Peter Roney, managing director, Cambridge Associates, US

1. Cambridge Associates has a dedicated investment strategy research team of more than 40 professionals worldwide. This team is responsible for establishing the house view with regard to asset allocation, valuations and risk mitigation. We focus on the most meaningful valuation-based opportunities that we expect to pay benefits over the intermediate to long term, while seeking to maintain protection against potential short-term macro risks.

2. We maintain a strict conflict of interest policy: we do not accept any fees from investment management firms for recommending their products to clients, do not have any brokerage operations or affiliations, and do not charge investment managers to participate in our databases. We work with plan trustees to clearly define institutional goals and institutional ability and willingness to bear various forms of risk up front, allowing us to maintain a longer-term perspective.

3. Qualifications, such as the CFA or an MBA can be a comfort to a pension fund because they are tangible indications of a knowledge base and evidence of some expertise. However, relevant professional qualifications and relevant experience is the ideal combination. If a choice must be made the latter, especially in times of real market stress, may be more valuable.

Bobby Riddaway, head of investment consulting, Capita Employee Benefits, UK

1. We have an investment steering group made up of our senior investment principals. That group considers the relative long-term benefits of asset classes and also output from our modelling of medium term market pricing. Also the majority of clients are now working towards an end game and we encourage our clients to set a long term objective to reach self sufficiency. Be clear with clients on what a flight plan will achieve and the advantages of disadvantages of aiming for a particular funding level. Also, make sure they have robust medium term market views, and trigger mechanisms, to enable clients to make informed decisions to de-risk when their funding level improves.

2. Schemes could remunerate their consultants on a performance related basis, where performance is related to a long term benchmark. We also allow clients to spread fees for large projects over a number of years, which allows clients to make full use of their consultants experience without worrying about short term hikes in fees, and unexpected fees.

3. The three most relevant qualifications are actuarial, CFA and IMC. Given the FSA principles are good professional standards all firms, even those who are not authorised by the FSA, should follow these principles. It is hard, in the current environment, to see how an FSA approved person could be deemed competent without a professional qualification.

Kerrin Rosenberg, CEO UK, Cardano, UK

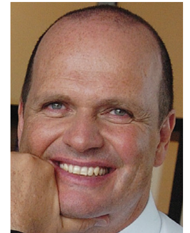
1. Our solutions team is our main source of strategic investment views, and it has been built by hiring specialists from fund management and risk management as well as academia. We split our team across strategy, liability risk management and managers.

We operate a series of internal committees to ensure that each idea is developed in a collegiate manner, with robust challenge from peers. Examples of where our process has helped our clients achieve returns and manage exposure to economic risks throughout the current difficulties include protecting against falling interest rates which have had a big impact on the value of the liabilities and being early into investments such as high yield and emerging market debt.

2. We believe that [alignment of interest] can be best achieved through performance related fees assessed against improvements in the funding ratio. However, we believe that performance fee structures only work for delegated arrangements. In an advisory relationship the trustee takes all of the decisions and it is harder for the adviser to be accountable for the results. We think that fixed fee structures can work well as they provide certainty over costs, allowing trustees to focus on whether value has been added by comparing the results against their objectives and funding ratio.

3. All of our consultants are either actuaries or CFA charterholders. There is no single qualification which makes you a great investment consultant. It is important for clients to ensure that their consultant has the right level of knowledge to provide the advice and is able to understand changes in markets and importantly be able to wade through the ever increasing complexity.

Olivier Ferrari, CEO, CONINCO, Switzerland



1. A strategic investment commission categorises the collective investments that we recommend. An investment committee defines the market prospects for each asset class invested by clients. A management commission reviews all clients' portfolios to ensure conformity with directives and allocations and a collective investment commission ensures compliance with the investments guidelines. The executive committee, which meets once a month, makes the final decisions regarding the rebalancing strategy. An asset/liability modelling (ALM) study defines a tailored strategic allocation for each client.

3. An investment consultant should fundamentally have knowledge of business management, actuarial expertise, and in financial and real estate management. He must also master group psychology dynamics depending on whether he talks to top management, unions or affiliates directly, also aiming at one target – the management of a social security system and not seeking to maximise profits.

Marcus Burkert, managing director, Feri Institutional & Family Office, Germany

1. We employ separate economic research divisions that create possible scenarios for future developments. Here we take possible political developments with their market impact into account. These market views are transferred into investment portfolios. This process described above helps Feri to discuss possible developments with our clients and include specific client expectations and views of future developments into the creation of portfolios. Times have passed when it was suitable to create a strategic asset allocation on the basis of solely historic returns. Nowadays, markets are much too volatile and political impacts can change the game pretty quickly.

2. Since many of our clients invest pension money we are used to thinking in time horizons of 20 to 50 years.

Nevertheless, many clients place a strong emphasis on the end of the 12-month accounting period. Since we are interested in long-term relations, our remuneration reflects the ability of our employees to build such long-term relations.

3. I think it is not suitable just to ask for a certificate – like the CFA or an actuarial title. It is rather important for a consultant to prove experience and the ability to stay up-to-date in the relevant consulting areas of assets, liabilities, legal aspects and so forth.

Nick Sykes, investments partner, Mercer, UK

1. Strategic research is the responsibility of the directors of consulting group of seven senior professionals, based regionally under a global director of consulting based in London, which is responsible for setting what we call the strategic research agenda, commissioning original research as required, reviewing, agreeing and communicating the output of this process. Recent projects have been 'building real asset portfolios' and 'growth fixed income'.

This approach resulted in a series of 'Opportunity Knocks' papers that included Investment Grade Credit (March 2009), Convertibles (May 2009) and Recovery UK Property (July 2009). The environment of record low interest rates and bond yields, anaemic economic growth, and plentiful liquidity but high uncertainty, has also thrown up specific opportunities, the most obvious being in the area of various forms of private debt.

2. It is inefficient (not to say dangerous) to focus on return at the expense of risk, so performance-based incentivisation would need to combine risk and return, over a suitably long term time, which is difficult. We often seek to get clients to focus more on the key long-term decisions and less on short term, second order and detail matters.

3. Our graduates are all encouraged to undertake CFA or actuarial examinations, but given that there is no single optimal qualification tailored to the work that investment consultants do, clients should not regard lack of a qualification as indicative of competence, particularly as other experience such as asset management may be highly relevant.

Patrick O'Sullivan, vice-president of investment consulting, Redington, UK

1. At the core of Redington's strategic advice process is the creation of a bespoke pension risk management framework for each client at the beginning of our engagement with them, in which the trustees and stakeholders clearly lay out their goals, objectives and constraints. Views on the appropriateness of an investment strategy are then generated by considering the current position against the client's specific framework. Rather than setting static strategic benchmarks we find that this framework-based approach enables our clients to dynamically alter the strategic asset allocation without having to make a view on the direction of markets. It also helps pension fund stakeholders to assess individual opportunities within a specific client context, even when these opportunities may be considered unfamiliar or complex. For example, having such a framework in placed enabled one of our clients to access a source of utility credit risk, with RPI linkage, at a significantly higher level of yield than is otherwise available in the market. The client's framework immediately clarified how well the opportunity would fit their long-term return objectives and improve their position relative to their interest rate and inflation risk constraints. This took the process from initial identification to implementation down to less than three weeks.

2. In my view, financial incentives and performance fees should only be structured once there is absolute clarity about what is to be achieved, or else there is a danger of a misalignment of interests in the design or implementation of the investment strategy.

3. As an actuary and CFA I should probably say that they are the most relevant and you should always look for your consultant to have at least one of those designations. However, I place more value on experience than qualifications. I also think clients should consider not just the level of experience but how relevant that experience is.

Sorca Kelly-Scholte, managing director, consulting and advisory services, Russell Investments, UK

1. Russell uses a global model to develop asset-class assumptions, building globally consistent, capital market assumptions based on empirically-developed yield curves for the major markets adjusted to reflect the dynamic behaviour of risk premia. A dedicated team located in our Seattle office, in liaison with regional representatives, maintains and develops this model. The process is governed by the forecasting governance committee, comprising representative from both the modelling group and the regional consulting teams.

More recently, market volatility and a proliferation of asset classes have given rise to the need for a more dynamic approach to asset allocation. Finally we consider more tactical considerations. The long-term neutral position remains valuable as the default position in the absence of tactical or medium term views. While changes can occur to this from time to time they should reflect longer-term structural changes in markets rather than shorter-term influences.

2. First and foremost, alignment of incentives is about having a shared vision of success and a set of objectives that drives towards that success. But there is an issue of accountability which can muddy incentivisation. Many funds use their consultants as adviser, executive and indeed secretary. It is easy for dissatisfaction with one of the roles to discolour satisfaction with another. Russell offers consulting and fiduciary management services. With each of our clients, we take time at the outset of a relationship to build a clear understanding of which decisions we are fully accountable for, and which decisions the client wishes to retain control of but be advised on.

3. A client need not necessarily be concerned if their consultant is able to provide meaningful and actionable advice but doesn't have letters after their name. There is no question however, that a sound academic body of knowledge such as provided by the CFA programme or the Institute of Actuaries exams provides an invaluable foundation for developing understanding and knowledge. At consultant level, and above 85% of Russell's consultants, senior consultants and directors have professional training qualifications.

John O'Connell, Trident Consulting, Ireland

1. Consultants, like the rest of the world, are prone to 'living in the moment'. While 100-plus years of usable investment history limits what we can learn from history, some seem unwilling to learn anything. There is insufficient appreciation that risk depends on both the market segment and the price you pay. If you pay too much for an asset with a risk-free label, it is risky.

2. Few pension funds have the wherewithal to challenge the investment agenda which is driven to a large extent by investment consultants.

3. I don't believe that the investment industry should be populated solely with people from a particular background or with a particular qualification. Investment success needs a mix of groundwork and intuition and I would be concerned that the intuition aspect would get crowded out if there is too much focus on qualifications.

Hamish Wilson, Managing director, HamishWilso, UK

1. Our approach is to first challenge and help establish a client's key long-term objectives and then to work backwards.

Undue focus on risks without understanding the longer term dynamics that may provide essential room for manoeuvre can mean denying essential return generating opportunities.

Consultants could pay more attention to the client's objectives, challenge their thinking with a view to establishing the most appropriate strategic direction.

2. Strategic investment consultancy is different from tactical investment advice and there is inadequate appreciation of the contribution each gives in the investment result. Aligning interests has to start with appreciating and differentiating between these two elements.

In terms of strategic direction you have to ask what remuneration basis is going to ensure you chart the best possible direction without any danger that the remuneration basis is not colouring the outcome.

3. We have to declare a bias – we are actuaries! This training necessarily involves a thorough understanding of cash flows and the importance of understanding the risks and return 'trade off' as between the cash flows of an entity's liabilities and those of available asset classes. It is down to other professions to demonstrate their training gives them the same insight and thus the credibility to advise in these circumstances.