The Frontier Line

Thought leadership and insights from Frontier

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Choosing an investment consultant

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About us

Frontier has been at the forefront of institutional investment advice in Australia for over 25 years and provides advice on $600 billion of assets across the superannuation, charity, public sector, insurance, private wealth and university sectors.

Frontier's purpose is to empower our clients to advance prosperity for their beneficiaries through knowledge sharing, customisation, technology solutions and an alignment and focus unconstrained by product or manager conflict.

Meirine Giggins

Senior Consultant

Meirine joined Frontier in 2021 focussing on client advice delivery in the growing endowment, charitable foundations and private wealth segments. Meirine is a qualified Chartered Accountant (CA) and Chartered Financial Analyst (CFA) who has over two decades of experience in investments. She started as an Equity Analyst at Allan Gray in South Africa and thereafter joined HSBC Asset Management. Meirine co-founded a Single Family Office with a sizeable South African family as CEO/CIO. In this role over 15 years she was responsible for managing the global asset base, overseeing corporate governance and all financial concerns. Meirine holds a Bachelor of Accounting (Hons) and Higher Diploma in Tax.

Sarkis Tepeli

Principal Consultant

Having joined Frontier in 2007, Sarkis is a Principal Consultant and segment head for our business segment servicing charities, foundations, higher education, community trusts, family office and private wealth clients. He is also a founding member of Frontier's Responsible Investments Group (RIG) and a member of Frontier's Manager Ratings Committee (MRC). Before joining Frontier, Sarkis was employed by WorleyParsons as an Electrical Engineer/Consultant. Sarkis holds a Masters of Applied Finance from Macquarie University. He also holds a Bachelor of Commerce and Bachelor of Engineering (Electrical) (Honours) from the University of Melbourne.

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Introduction

The appointment of an investment consultant is a critical decision. The decision can have a profound impact on investment performance and alignment of an investment portfolio to the expectations of the ultimate beneficiaries.

The right consultant will develop a thorough understanding of the organisation they are consulting to and then propose novel ideas that are fit for purpose and provoke discussion. Your consultant should effectively become an extension of your team.

Investment consultants, also known as asset consultants, are appointed to advise on investment portfolios managed by a committee or board for the benefit of individual beneficiaries, or for an institution like a university. As with other expert service providers, like legal, audit and tax, investment consultants are appointed either on a retainer or project basis to provide expert advice on a range of investment matters, or even for an objective outsider's holistic opinion or health check.

Effective consultants will contribute to the decision-making process, but not substitute responsibility. Decision-making is the Board or Investment Committee's role and responsibility.

The investment consultant provides independent expertise, an informed framework and recommendations enabling the Board to take due care in executing its duties.

While investment consultants and financial advisers both provide investment advice, consultants are specialised in advising institutional investors. Institutional clients often require more sophisticated solutions, with consultants offering a broader knowledge base and more in-depth coverage that specifically caters to these complex needs.

As an investor grows and becomes more sophisticated over time, they may find an investment consultant more relevant for their needs than a financial adviser. It is normal for investors to transition from a retail-oriented adviser to an institutional adviser as their investment portfolio grows and their requirements become more sophisticated.

There are also often triggers to change an investment consultant relationship. These include meaningful change in the investor's or consultant's business, service that is not meeting agreed standards, or where the outcome of advice is disappointing.

In this paper we cover the key considerations and steps required in appointing a consultant. We focus specifically on the investment and servicing credentials of a consultant. There are other important operational factors to take into account including sufficient insurance cover, financial position, and administrative demands, but these are not considered in this paper.

Getting started

Appointing an investment consultant is a major decision which requires careful consideration before and during the process to achieve the best possible outcome. In this section we outline a number of steps that should ensure your organisation gains the best potential benefit from engaging a consultant.

Define the purpose and requirements

The first step taken should be defining specific needs to be met and the role the consultant will play in addressing those needs. It is important to include all relevant stakeholders in this process.

Being clear in defining and documenting the expected outcomes of the consultant's work will make it easier to measure the success of the actual appointment.

The role of the investment consultant could include a combination of the following:

- Review or establish an investment policy or governance framework.
- Formulate and articulate the investment objective, this would include defining the investment philosophy, return and risk objectives and investment horizon.
- Establish a strategic asset allocation to meet the investment objective over the long term.
- Establish a dynamic asset allocation framework and provide advice to enhance performance over the shorter term by taking opportunity of constantly changing markets.
- Provide research and recommendations on fund managers and products in specified asset classes.
- Continued monitoring of manager and product performance against appropriate benchmarks. This could lead to changes in manager selection or asset allocation.
- Advice on responsible investing challenges or objectives. Examples of this include assisting in developing a plan to meet specific climate goals adopted by the organisation, such as 'net zero', alignment with the Paris Agreement, or setting guidelines to participate in impact investing opportunities.
- Formulation of bespoke spending policy that caters to the organisation's specific requirements.

Identify key characteristics of the consultancy

Although all investment consultants offer similar services, there are significant differences across each consulting business. These differences will impact the quality of advice, the manner in which the advice is delivered, and ultimately the performance of your portfolio. There are a number of important attributes we believe have a significant impact on investor outcomes guidelines to participate in impact investing opportunities.

Values, culture and beliefs

It is important to ensure the consultant's values and culture align to your expectation of a specialist service provider. Values reflecting integrity, honesty and collaboration are critical in guiding all aspects of the consultant's business. Consulting is a people business and one that requires teams of specialist staff working together to solve problems for their clients. Organisations that not just talk about, but can demonstrate teamwork, diversity and inclusion would be expected to achieve superior idea generation and outcomes for clients.

The investment consultant should have a culture of strong due diligence and risk management. They need to have a mindset and motivation of always keeping the client's best interests foremost.

Following values and culture is investment beliefs. It is important to understand the consultant's investment beliefs as these are crucial in ascertaining whether the organisation has an investment philosophy from which to build a fitting solution for your portfolio.

As a simple example, if the consultant's investment beliefs don't recognise climate change, they are unlikely to perform sufficient research to fully support you if you explicitly consider climate change to be a key investment risk.

Handy tips

Look for references to the consultant's purpose and values on their website, presentation materials and during discussions. It is common for consultants to have well thought-out purpose and values, but perhaps less common for these to be used on an ongoing basis to motivate behavior, approach and decision making. If there are certain values or beliefs being espoused by the consultant, ask for why they have chosen those specific values and examples of how specific values have helped achieve superior results for their clients.

Conflict and ownership

An independent and unconflicted consultant is generally considered best for an objective, thorough and superior result. The consultant should be making recommendations with the investor's (and only the investor's) best interests in mind. Any means for the consultant to earn additional non-advice revenue from the recommendations they provide should be viewed cautiously. The consultant needs to demonstrate complete transparency in this regard by clearly disclosing all conflicts in place and detailing any associated benefit to the consultancy beyond a pure advice fee.

Some consultants will disclose potential conflicts and highlight how these are managed, but in Frontier's opinion, conflicts complicate the advisory relationship and require an added level of oversight, along with doubt. Ultimately the investor's relationship with the consultant should be such that what is best for the client is best for the consultant, and not the other way around.

The ownership of the consulting business is also an important factor as it provides an insight into its purpose. All successful businesses aim to make a profit to sustain the future operation of the business. Businesses, or parent companies, listed on a stock exchange will generally have a core purpose to maximise shareholder returns, which is generally short term in nature. Businesses owned by private equity may have a slightly longer investment horizon for the owner, however, most private equity held businesses will eventually be sold and the purpose of private equity is generally to improve profitability and efficiency in search of the highest possible sale price. Privately owned consulting businesses, in general terms, would be expected to conduct their business with a longer-term mindset, which requires an enduring and satisfied client base.

Handy tips

- Enquire about all sources of revenue for the consultant.
- Seek information about the ownership structure of the consulting business and how it has evolved over time.
- Consider the profit motivation of the business.

People and incentives

Investment advice requires significant effort across a number of areas including capital markets analysis, asset class and asset manager research, responsible investment issues and technology. To achieve the best outcomes, consulting businesses are typically organised into teams with specialist expertise who work together to produce solutions and ideas for their clients. The ability to attract and retain talent is vital to achieve the best possible outcomes. Investors seeking to appoint a consultant should understand the reputation of the consulting business as an employer and enquire about staff turnover. Try to develop a good understanding of the growth (or lack of) of the consulting business and how they are managing their resourcing to respond to it.

Equally important is incentivisation and alignment. Ideally, you should be comfortable the consulting business has, at a minimum, market-based salaries and is able to compete for talent at all levels. Also important is a link between the short-term incentives of staff and client outcomes, to ensure an alignment of interest between the consultant and investor.

Handy tips

- Request a list of all departures and appointments over the last three years including reasons for departure. Do background research on where the departures went (consultants leaving to join another consulting organisation is generally not a good sign).
- Enquire about the client to consultant ratio and how this has evolved over time. This is a good indicator of how much time consultants have to spend on each client. Ask how many clients the allocated consultants service to avoid figurehead advisers who do little work on each client.
- Ask the consultant how consulting incentive structures are set to determine whether there is any link to client outcomes.

Match consultant capability to areas important to you

Research the breadth of the resources and knowledge base within the consultancy. A strong inhouse team covering a diverse range of relevant areas will provide a more balanced end solution and should be better equipped to provide the ongoing support needed. If your requirements relate to a specific topic or area, it will be important to ascertain the consultant's experience and capability related to the specific topic where advice is sought.

Data and information have become an important input into the formulation of investment advice. Every credible investment consultant should have access to accurate and reliable information sources ranging from raw market data, economic data, data on investment managers, climate related data, journals and other financial publications. However, what sets apart the best consultant, will be how data is processed and embedded into the consultant's own proprietary models, systems and research to generate the best insights, ideas and solutions for the client. This is often an overlooked component in evaluating asset consulting proposals.

Handy tips

- Ask the consultant to provide published research pieces that have been written in areas where you are seeking advice. This will provide a good insight into how long the consultant has been researching and providing advice in areas where you are seeking advice. An extension to this exercise could be to request case studies where a consultant has helped clients solve challenges similar to those you are seeking advice on – the quality of these case studies can help provide deeper insight into the consultant's capability in this area.
- Ask for a list of subscriptions, systems and data-feeds they access and seek clarity into how that data is processed through to research, insights and ideas for clients. Ask about the consultant's annual expenditure on data and systems capability and their own dedicated internal resources.

Track record

It is important to find out if there are any independent measurement tools in the market to evaluate the consultant's track record. For example, investment consultants in Australia are measured by Peter Lee Associates in an annual survey of institutional investors which ranks consultants across a range of factors.

You can also review the actual performance of consultant's client's funds against industry benchmarks in the public domain. In the case of superannuation funds this is readily available. Successful consulting organisations should be able to produce various performance metrics on request.

Advice on asset allocation is often considered the most significant element of achieving portfolio performance. Ask your investment consultant for a breakdown of their 'market calls' to review where their advice over particular sectors has either added to, or detracted from, the overall performance of their clients.

Investigate the number of clients gained and lost, including the reason for those losses and which consulting firms those investors moved from, and to, over the past few years. These movements usually follow extensive evaluation processes and provide an indication of recent market assessments and a sense of the general satisfaction of clients.

Handy tips

- Ask the consultant for the results of the annual Peter Lee Associates survey going back several years to develop a better picture of the consultants' strengths and weaknesses across a range of various factors.
- Look at the performance track record of the consultant's rated investment managers. Ideally this will show areas of strength and weakness across sectors or asset classes for the consultant's research coverage.
- Request the performance track record of the consultant's clients, particularly for similar clients to your own organisation.

Request for proposal

A common approach to 'go to market' is to issue a request for proposal (RFP) to a number of consultants.

The RFP should provide background information regarding your purpose and investment program, detail the services required (scope), ask a range of questions to help identify the best consultant for the role and provide information and a timeline for the tendering process. It is the main document for engaging with the market and a useful tool to help narrow the field to a shortlist of contenders for closer review.

A thorough RFP should include the following:

Enough information to accurately price the services

Consulting advice is a nuanced and often highly bespoke service that requires the consultant to have a solid understanding of the client's organisation, investment program and ways of working. RFPs should contain enough information to allow the consultant to accurately price the work. This should include current investment objectives, portfolio structure and manager line-up. If you are concerned about sharing this detail, ask the consultant to sign a non-disclosure agreement. Without the right information, the consultant may under-, or over-, estimate the assignment, which will ultimately be to your detriment.

Scope

The scope for the engagement should be defined in detail including a list of services, deliverables and timeframes. The better defined the scope is, the less risk of being presented with a generic solution. Agree internally on the required tasks and services upfront as this will provide the basis of the proposal and will be used by the consultant to frame their response and calculate the proposed fee. A well-defined list of services will also make it considerably easier to compare the pricing of different consultants as it will allow you to compare 'apples with apples'.

Ask the consultant to specify individuals on the team

You should expect the people you deal with during your assessment will also be on the team to do the job. Individuals expected to work on the assignment should be listed with a synopsis of their backgrounds and expertise. There is a risk the people listed in the proposal, and who are involved in pitches for the services, are not the people ultimately allocated to the work. Corroborate their availability by requesting the workloads and responsibilities of the proposed individuals. Naturally if the consultant is proposing a high-profile individual who is working on several other clients, and a less senior resource who is working on one or two other clients, you might expect the less senior resource to ultimately perform the bulk of the work.

Specific questions

Ask enough questions to understand the many facets of the consulting business as discussed throughout this paper. The consultant's answer to these questions should help you develop a reasonable picture of the consultant's strengths, weaknesses and what it will be like working with them, all of which will be helpful in determining a shortlist or awarding the work. Ask for specific samples of work (like manager ratings or other pieces of research) or examples of how the consultant has worked with similar clients to solve similar challenges. Avoid asking questions that won't actually help your evaluation as this just creates extra work for the consultant in responding, and for you in reading through proposals.

Format and timeline

To make your task of comparing responses easier, specify the format for responses, at least in terms of the way and order in which questions should be answered. You may even want to emphasise brevity and specify limits around the length of response to avoid having to read through large amounts of marketing and material. Alternatively, not including word limits might give you a sense for the natural style of the consultant and how their actual reports and papers are constructed – concise and clear, or unnecessarily complex and lengthy.

Handy tips

- Spend time developing a well-constructed RFP document that will ensure the proposals you receive provide all the information you need and are easy to compare.
- Don't include questions that won't impact your decision. That will just make your task in assessing proposals more time consuming than it needs to be.
- Be prepared to share enough information to help the consultant tailor their response for your benefit. It is unlikely you will risk any loss or damage by sharing relevant details of your portfolio. If you are particularly concerned provide a non-disclosure agreement.

The interview

Once you have reviewed the tendered proposals, arrive at a shortlist of candidates for an interview or pitch.

Interviewing consultants is a critical step as it allows you to better appreciate what they might be like to work with and can potentially provide a deeper insight into the culture of the consulting organisation.

You should interview the individuals who are intended to work on the proposed assignment rather than high profile individuals that may only be brought in for the tender process. As noted earlier, it is not uncommon for consulting firms to engage through the tender phase using their most senior and highest profile consultants to then have these individuals reassigned to other clients or drastically reduce their involvement once the tender has been awarded. Make sure the people who you will actually work with are prominent in any interview or presentation so you can see how they will perform.

The following points should be assessed during the interview process:

Does the person listen?

It is important the consultant listens to what your concerns are and shows they appreciate the intricacies and dynamics of your organisation.

They should ask about your investment objectives, financial needs, restrictions (regulatory and other), operational workings and tax status. A good consultant will want to discuss these details and be thinking about how to deliver advice that is specific to your requirements. The consultant should be curious about your business and seek to gain an understanding of its history.

Fit and alignment

Building a long-term relationship with a person or team of people you can trust is crucial. Through the interview seek to gain a sense of whether you have shared values and ethics. Are you comfortable with the style and approach of the people you will work closely with?

Try to imagine what your working relationship might be like as a successful relationship requires respect, comfort and a high level of trust between all parties.

Confidence

Seek to assess the confidence of the individuals participating in the interview process. Confidence is gained through experience and knowledge, and having had previous clients where great results were achieved. A confident consultant will provide recommendations positively and be open to feedback, rather than be overly insistent or dogmatic on their ideas. The converse is overconfidence, which should be avoided. Few investors want to be forced to adopt an approach – most would rather work in partnership with their consultant. Humility in approach is a very valuable attribute. In investments, where the knowledge base is wide, a consultant needs to recognise when to refer to other specialists on matters outside their area of expertise.

Collaborative

Get a sense of whether the consultants in the proposed team work well together and that the consultant will work well with your organisation's team. Measuring collaboration is challenging and subjective. The key aspects to look for are communication style, listening skills, team structure and the degree to which the consultant is willing to tailor its client engagement and working style to best suit your requirements.

Collaboration is critical when it comes to the client-consultant relationship. You will always be better informed about your organisation than the consultant. Such as, a collaborative approach, particularly for new relationships, will yield better results. At a minimum, collaborating via regular meetings will minimise the risk of the consultant's recommendations missing the mark or not taking into consideration an important attribute of your business strategy. It is important to tease out the consultant's preferred working approach and their willingness to engage in regular meetings particularly for new relationships.

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Communicating clearly and emphatically

Does the consultant have conviction around its view and can they communicate that clearly? Are they prepared to discuss differences in opinions and be resolute? It is important that a consultant provides their best, objective opinion, backed up with experience and research. Being frank and honest can sometimes be challenging for an adviser, but staying the course and communicating this to stakeholders is key.

Experience with similar investors

Consulting firms are increasingly taking on a more diverse client base. The best consultants will generally have established client segments in their firm to ensure a sound appreciation of the different types of clients they work with. Enquire about the individual consultant's work history, the types of clients they have worked with and how they have helped clients meet specific challenges. Try to test the individuals' understanding of your sector by asking specific industry related questions, raise pertinent news topics, or seek to understand how their advice to your organisation will differ relative to a similarly sized investor in a different industry.

Handy tips

- In striking a shortlist of contenders, only include firms you genuinely would consider appointing. The point of your RFP is to filter out the best candidates. If there is a clear standout, consider the need to complete unnecessary interviews.
- Don't spend time re-assessing information provided in the proposal. However, do seek to explore and better understand the depth of key written responses. Ensure everyone in your interviewing panel has read the written responses prior to any presentation.
- Use the presentation or interview to imagine what working with the consultant would be like in practice. If they are good enough to be shortlisted they will be capable of completing your required work so you don't need to assess that. Use the interview to understand their style and how you would work together.

Evaluating fees

The goal with agreeing fees should be a reasonable and sustainable cost structure for the services required. Seeking the lowest fee may not provide the best value. If your budget is limited, consider whether all services being priced are critical, or can be met internally or through other providers. To evaluate value, think of what the advice is worth to the business and how the fees compare with other professional services like legal, tax and audit.

The true value of the advice ought to be considerably more than the quoted fee. The quoted fee is typically, though not always, an easily identified and measurable one-off or annual figure. However, the value of the advice is more subjective as it is spread out over numerous years and can involve opportunity costs. In valuing the advice, it is important to consider the potential gains alongside the cost savings of avoiding expensive pitfalls, both qualitatively and quantitatively.

When fees are evaluated, it is important to make a 'like with like' comparison. Depending on the services required, there could be hidden fees or costs not necessarily transparent in the proposal. As previously explained, consultants often also sell products where they earn fees. If their advice recommends buying those products, you may end up paying additional fees embedded in the product. This needs to be factored into your total fee assessment.

Be alert to low fee outliers as this could either be a sign of the consultant wishing to recoup costs via other, potentially hidden fees or the consultant may not be pricing for the complete list of services. An outlier on the high side may indicate some confusion on the type of services being built into the offering. Be prepared to check with the consultant to ensure accurate pricing for your needs.

An investment consultant with strong scale can also help negotiate better fees from fund managers. In terms of total cost to the investor, this ability to reduce investment fees should also be factored into the total net fee calculation.

Investors should seek to have a complete understanding of fees and consultants should be completely transparent on how the quoted fees are calculated.

Handy tips

- Look for value.
- Consider the total cost that applies to your portfolio, not just the advice fee itself. This can also include savings the consultant can help you realise.
- If the fees for the best service are above your budget, consider if you can trim immaterial services to help meet your fee budget.
- Discuss whether the consultant is able to negotiate investment management fees for you and ask for examples of negotiated fees for clients of a similar size.

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Other considerations

Using a tender consultant

As discussed throughout this paper, appointing an investment consultant is an important activity which requires considerable thought and input to make the best decision. Not every investor will necessarily have the resourcing to be able to commit the time required to maximise the chance of a successful decision. For these investors the best option may be to employ the services of a tender consultant to support it in managing the search process. A tender consultant will be well placed to engage all the relevant market players and ensure the briefing and process is the same for all potential providers. An independent consultant can help your business make a clear comparison and an objective and informed decision.

Referees

Reference checks are a critical part of the selection process as they provide an investor's perspective of what it is like working with the consultant.

Ask the consultants for at least two references and preferably from clients who the consultant completes similar work for. Accept that the referees provided would be expected to be positive in their feedback so use your conversation with them to understand style and approach and to test any areas of uncertainty and concern you may have. Reach out to your networks to enquire about the reputation of the consultant and speak to current and former clients that have worked with them. Increased insight can be gained in understanding why clients have terminated services. This is good to ask the consultant, but even better if it can be verified independently.

Can you develop a long-term relationship with the consultant?

Consultants' advice and services will be enhanced as they develop a better understanding of your business through a strong relationship over time. The true test of an investment consultant is the value add through the market cycle, navigating the pitfalls, market challenges and periods of economic turbulence. A consultant with insight in the business will become a reliable partner through time.

You should be realistic in setting a timeframe over which to assess the value delivered from your investment consultant. While you should expect to see immediate results in terms of process and service delivery, any required portfolio restructuring and subsequent investment performance can take longer to materialise.

Retainer contracts typically run for a minimum of three years which allows sufficient time for an assessment of the performance and value being added by the consultant.

A consultancy with an in-depth skillset can assist you with other projects and services in the future. The dynamic market environment will present new demands from stakeholders and considerations by the Board or Investment Committee, which will need to be addressed. Where there is an existing relationship with a trusted consultant that possesses the necessary expertise and understanding of your organisation and portfolio, it should be more efficient, cost effective and insightful to work with this existing partner on future tasks.

Handy tips

- Appointing a consultant is a critical exercise with long-term ramifications. Spend time completing reference checks to provide assurance around your decision.
- Be prepared to use your networks to look beyond the referees provided. You are unlikely to discover any concerning insights from the contacts the consultant puts forward.
- Make your referee discussions meaningful and probe for insights that are relevant for you.

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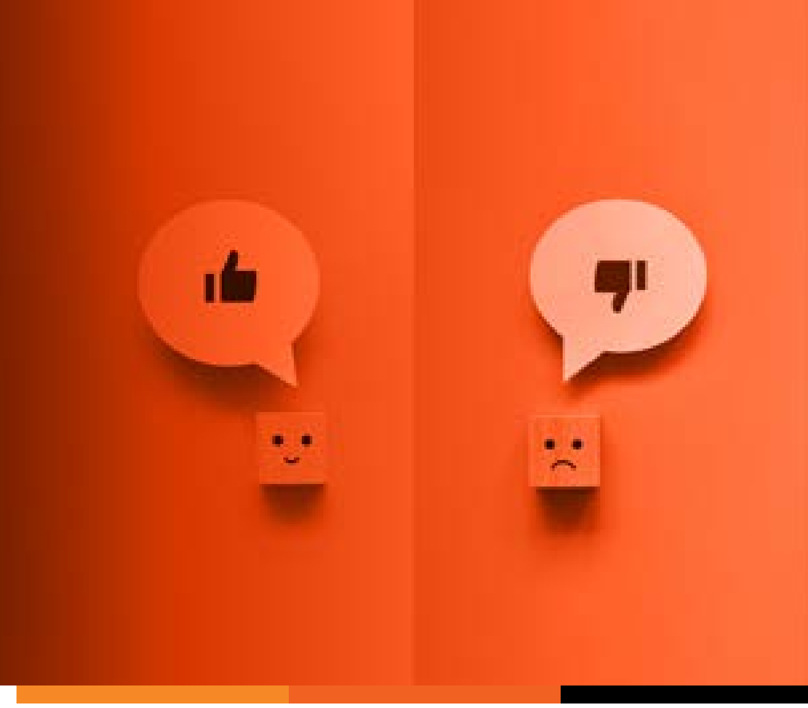

The final word

A good investment consultant will help optimise decision-making and governance structures and help achieve additional long-term investment performance. That added performance will generally outstrip the fees to be paid by a considerable margin. The right investment consultant is arguably one of the most important relationships for any investor to have.

There is a range of consultants with different areas of expertise and approaches but a robust process of assessment will clearly show how each differs, and which will add the most value to the specific solution required. As portfolios grow, appointing an investment consultant provides an opportunity to gain institutional grade advice.

The attributes in investment consulting that will ensure the highest contribution to results are quality of staff; range of relevant services provided; depth of resources and diligent research; independence or lack of conflict; aligned values and strong character. You want to find a consultant you can build a long-term partnership with based on shared values, respect and trust.

A consultant brings extra skills to the business, a valuable external perspective and objectivity and assurance.

Want to learn more?

If you want to learn more about choosing an investment consultant, Frontier can help. Please reach out to your consultant or a member of the Frontier Team.

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Frontier is one of Australia's leading asset consultants. We offer a range of services and solutions to some of the nation's largest institutional investors including superannuation funds, charities, government / sovereign wealth funds and universities. Our services range from asset allocation and portfolio configuration advice, through to fund manager research and rating, investment auditing and assurance, quantitative modelling and analysis and general investment consulting advice. We have been providing investment advice to clients since 1994. Our advice is fully independent of product, manager, or broker conflicts which means our focus is firmly on tailoring optimal solutions and opportunities for our clients.

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