



UNIVERSITY OF
OXFORD

The Role of Asset Consulting Companies in Transforming the Investment Decisions of Pension Funds

Eric Knight

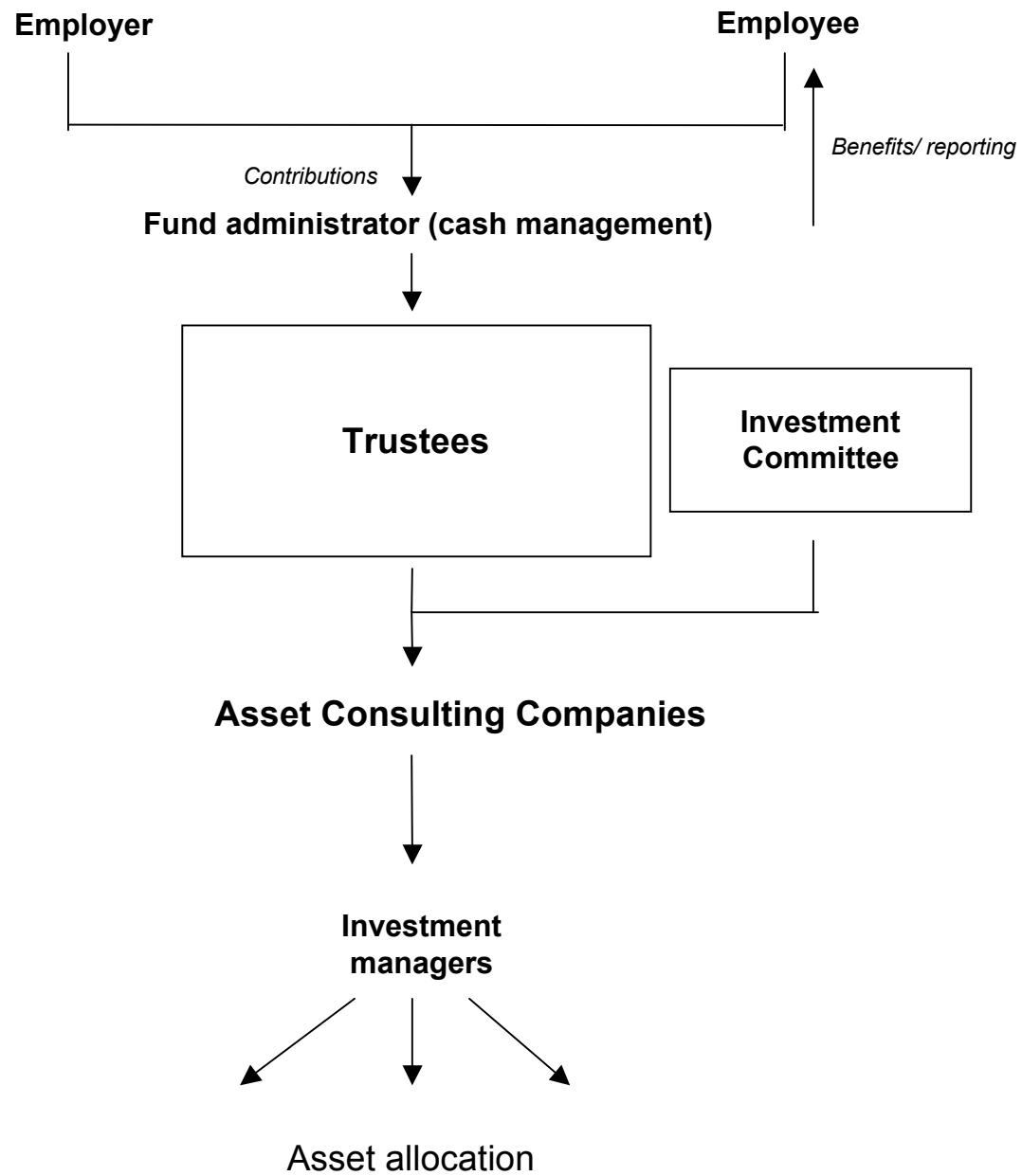
PHD Candidate

University of Oxford Centre for the
Environment



Overview

- Asset consulting companies → advisers to pension funds
- Methodology: questionnaires
- Short-comings in the quality of prudential investment advice to pension funds in terms of:
 1. Organisational Coherence
 2. People
 3. Process





Questionnaires

20 global consulting companies approached in April –June 2008

All major geographies – North America, Europe, Japan

19 open-ended questions

Respondents were Principals and Team Managers, and included

- Watson Wyatt Worldwide
- Mercer Investment Consulting Inc.
- Cambridge Associates LLC
- Russell Investment Japan
- Aon Consulting

USD 8 trillion assets under advisement as of June 2008

Represents 30% of global pension funds under management (Pension & Investments)



1. Organisational Coherence



Organisational Coherence

- Significant gap between consulting companies
- Result: poor understanding of system risk by less-experienced companies
- Leaders vs followers



2. People



People

- Most-experienced consulting companies found a shortage of suitable products the lead-up to mid-2008
- Best-practice companies rigorously measure manager performance along qualitative and quantitative criteria



2. Process



Process

- Short-termism culture systemic in financial management
- Tracking error limits and index-referenced mandates
- Remuneration/incentive practices matter



Related papers

- Caerlewy-Smith, E., Clark, G. L. & Marshall, J. C. 2006. Agitation, resistance, and reconciliation with respect to socially responsible investment: the attitudes of UK pension trustees and Oxford undergraduates. *Environment and Planning A*, 38, 1585-1589
- Clark, G. L. 2000. *Pension Fund Capitalism*, Oxford University Press, Oxford.
- Clark, G. L. & Urwin, R. 2008. Best-practice pension fund governance. *Journal of Asset Management*, 9, 2-21
- UNEP FI (2009) Fiduciary Responsibility – Legal and practical aspects of integrating environmental, social and governance issues into institutional investment