Meeting Date
09/04/13
Agenda Item
#11

MEMO

Date: September 4, 2013

To: CCCERA Board of Retirement

From: Marilyn Leedom, Chief Executive Officer
Timothy Price, Chief Investment Officer

Subject: Investment Consultant Options

Overview

The Board Chair asked that staff prepare a memo with options for the Board to consider regarding how best to respond to personnel changes recently announced by Milliman, CCCERA's current investment consultant. As you will recall, CCCERA was notified of Jeff Youngman's departure at the end of August. His replacement, Randy Young, CFA, CAIA will start with Milliman as a Senior Investment Consultant in mid-September. Earlier this year Bob Helliesen announced his plans to retire at the end of 2013. After his retirement, the Milliman consulting team working with CCCERA will consist of Marty Dirks and Randy Young, both Senior Investment Consultants. Bob Helliesen has committed to staff that he is available for at least six months post-retirement to assist the Milliman consulting team and attend CCCERA meetings as necessary.

Unlike most investment managers, who have a fiduciary responsibility to the Plan or to their individual fund, the investment consultant more often has a direct fiduciary responsibility to the Board. In this respect, investment consultants operate in a manner similar to that of the fiduciary counsel. While staff works closely with these parties, it is important to remember that the investment consultant reports directly to the Board and not staff. Therefore, any review should come primarily from the Board.

When significant personnel changes occur at any vendor, there are two key questions for the Board to consider:

1. Can the core services still be delivered?
2. Is this the right team to deliver those services to CCCERA?

Every firm leverages both unique individuals and processes, though some firms rely more on one or the other. Therefore the loss of an individual may have more or less impact on a given firm depending upon the model they have implemented. We typically evaluate the impact of personnel changes through a reassessment of the services provided and interviews with the individuals who will be delivering those services going forward. In the case of a portfolio manager, this may entail an on-site to meet with the backup portfolio manager or a director of research. In the case of the investment consultant, we would also recommend an on-site visit to evaluate the individuals and processes that will be used to conduct due diligence, manager research, asset class assumptions, asset allocation studies and quarterly performance reporting.

The second question is a bit more artful. In order to have a productive relationship, the Board needs to have a level of comfort and rapport with their consulting team. The consultant is tasked with being an advocate for investment strategy and being an independent evaluator of the current structure. In this role, the investment consultants act as advocates for the future investment of Plan assets and as such will be helping the Board fulfill their fiduciary responsibilities.

The Board should consider these questions, evaluate the current investment consultant relationship and determine the future direction of that relationship. Below staff has outlined a number of options for the Board to consider during the review of this situation.

Options

1. Continue the long term relationship with Milliman, subject to comprehensive due diligence review of the new team. This would mean continuing the relationship under the existing contract, but with a new consulting team. At a minimum, the Board would need to conduct an on-site review with Milliman to understand the philosophical approach of the new team, including the methodology used for conducting manager research, asset allocation, and other consulting assignments.

2. Issue an RFP for a general investment consultant. The general consultant arrangement has worked well for the Board for nearly 30 years. Given that there will be a new consulting team regardless of any Board action, the Board may wish to review other firms at this time and compare Milliman to the services and teams put forth by other consulting firms. If the Board chooses this path, Milliman should be included in the bid process. Once the RFPs are received an ad hoc committee would be established to evaluate the responses and make recommendations to the Board.

3. Depending on the outcome of Option 1 and Option 2, issue an RFP for a specialty consultant. This option would explore splitting the consulting relationship between general consulting (asset allocation, performance reporting, public markets manager research) and specialty consulting (primarily in the private market segments). In this instance, specialty consulting would include, but not be limited to, private equity and real estate consultants. The idea here would be that by bringing in a specialist, CCCERA may be able to build direct programs and move away from the fund of funds model, and the extra layer of fees that comes with that model. Note: this is an option for the future only, as CCCERA currently does not have the staff necessary for oversight of direct programs.

Conclusion

As noted above, an investment consultant has a unique relationship with the Plan it serves. While consultants typically work closely with staff, they report directly to the Board and should offer a truly independent opinion on investment topics and strategies. As such, staff recommends that the Board review the options listed above and direct staff appropriately. Staff stands ready to assist with this process.