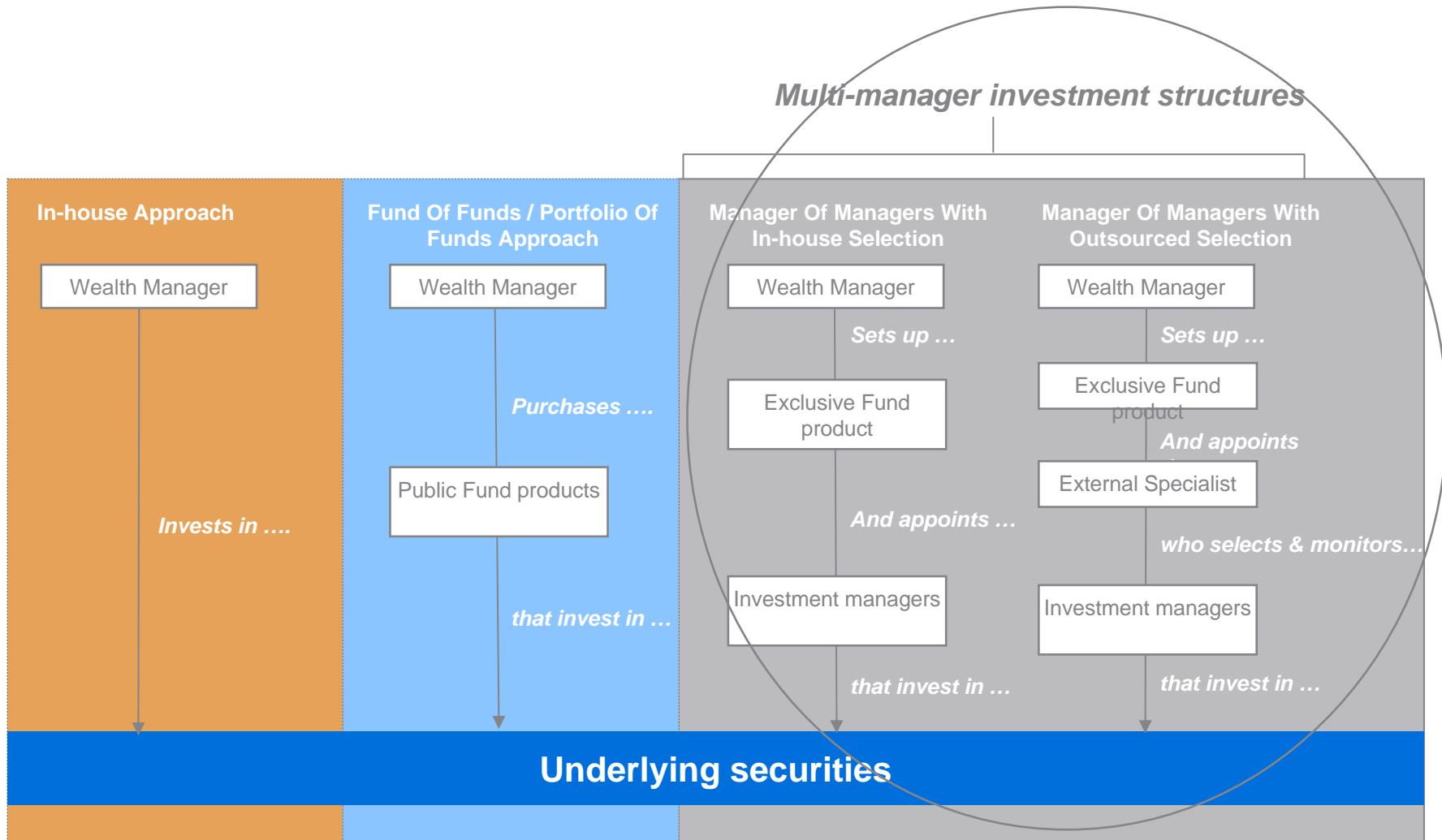
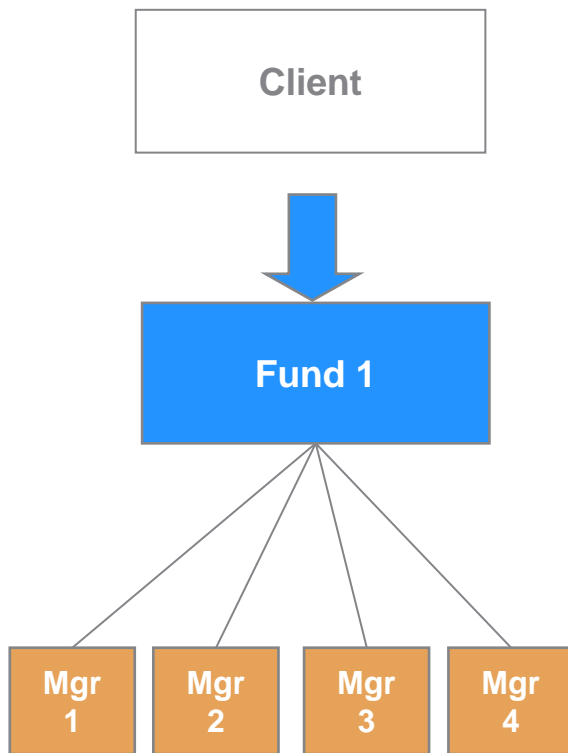


# Multi-manager In Practice; What ;Why; Who & How?

- What are we talking about?
- Why is such a solution worth considering?
- Who are the players in the market?
- How does the process work?
  - Operational model
  - Economics
  - Implementation – some hurdles

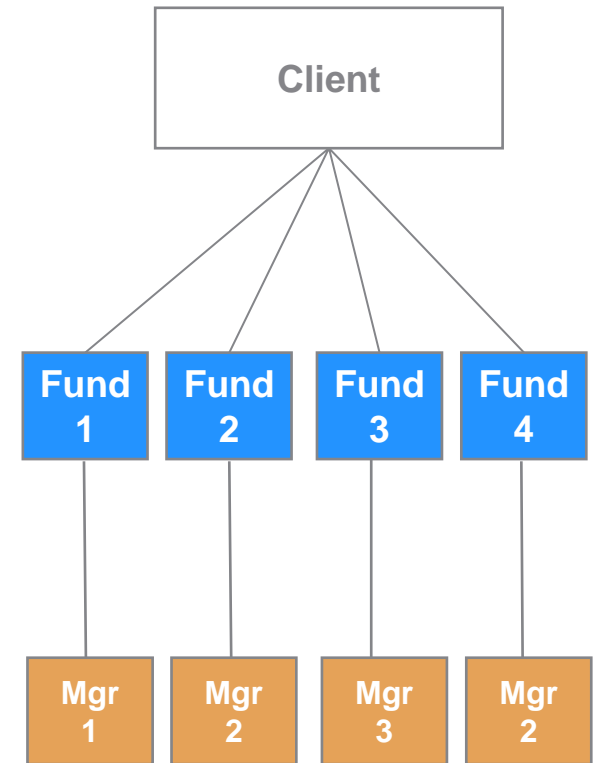
# What is the “Multi-manager” concept?



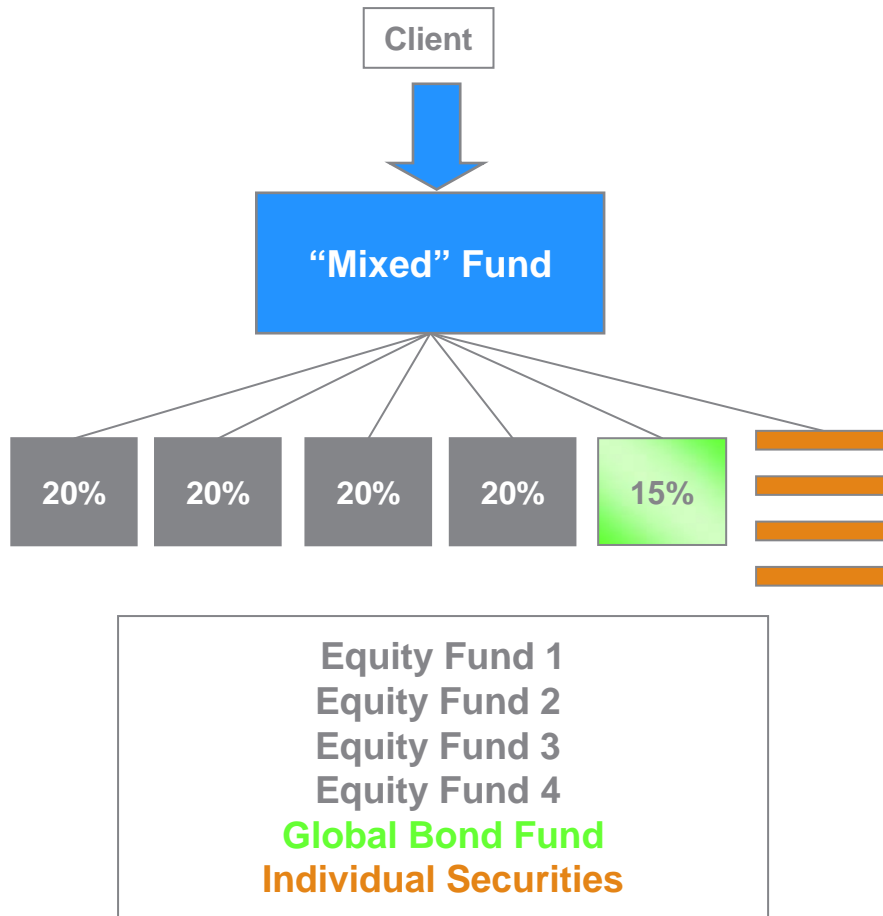


MM  
fund(s)

External  
manager



## A fund “presentation layer”



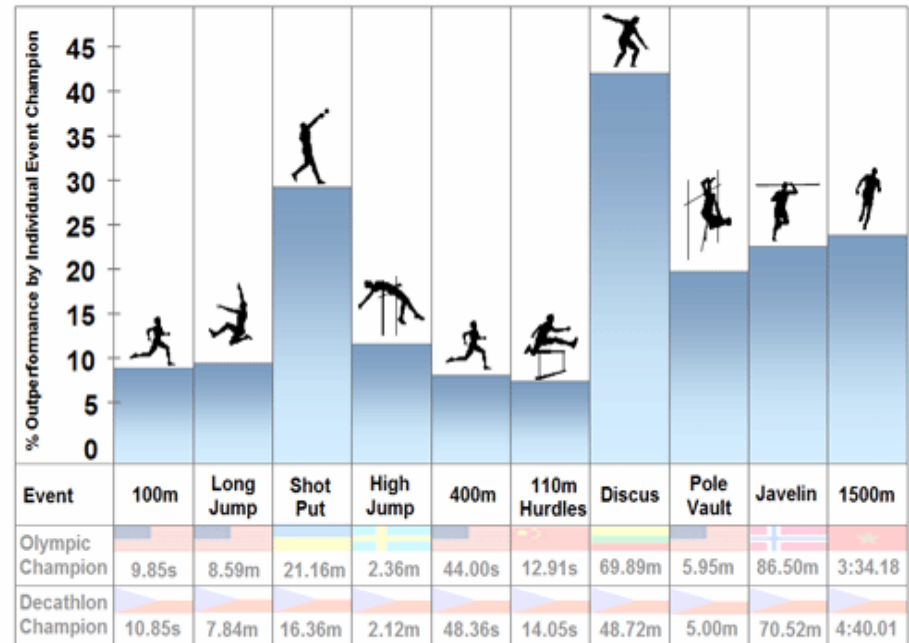
- A client's investment allocation needs can be met by combining Multi-manager funds within another fund vehicle, which itself reflects the client asset allocation needs in its portfolio.
- The underlying fund vehicles can be any form of Multi-manager fund
- High flexibility to include any investment approach

- High-profile exponents of a Multi-manager open architecture model include:
  - Scottish Widows / Lloyds TSB (arrangement with Russell)
  - HSBC Private Bank ( SEI)
  - HSBC Investments (In-house)
  - Norwich Union (Close)
  - Coutts (RBS Asset Management)
  - Credit Suisse Private Bank (Russell)
  - Barclays Wealth (in-house)
  - Skandia (in-house)
  - Insight (in-house)
  - AXA (in-house)
  - Fidelity (in-house)
  - ...and many more besides..... **WHY?**

- Why have wealth management organisations made the change from segregated portfolios to funds?
  - Operational risk and cost avoidance
    - constructing and managing a portfolio of funds is operationally easier and less costly than a segregated portfolio of assets
    - Lower custody, settlement and trading costs
  - Investment risk management
    - Managing the dispersion of investment performance across clients is easier when the portfolios are constructed of funds managed independently

- Seeking the best

- In athletics the decathlete is unlikely to out-perform the individual specialist
- In investments, it is unlikely any one house is the best across all asset classes
- Multi-manager seeks and combines the best managers in the resulting product



Source: Russell

- Flexibility

- Access to specialist managers – who may be available only on an institutional basis
- Ability to determine the investment mandate specifically – rather than accept the “next best thing” from existing funds
- Can combine selected external funds with internal expertise in core areas – complementary propositions

- Risk management

- Combination of manager mandates and styles can be designed to reduce portfolio risk within the vehicle
  - Value combined with Growth; Large Cap with Small Cap – each a specialist manager

- Pricing

- Institutional fee levels for each asset class (rather than “retail fund” costs) – more for the distributor?

- Flexibility
  - You cannot change a manager “overnight” – unlike an external fund choice which can be varied almost immediately
- Risk management
  - Are you really buying an expensive tracker?
- Pricing
  - Cost of manager research (whether in house or through a third party) – different expertise and resource are required

- There are a number of specialist providers willing and able to help
  - Some have “spun-off” existing businesses (Wealth management / actuarial consulting)
  - Some support services wider than Multi-manager
  - Thumbnail sketches follow.....

## RBS Asset Management

### Profile

- Spin-out from Coutts

## Russell

### Profile

- Significant US-based Multi-manager

## Northern Trust

### Profile

- US global custodian offering Multi-manager service

## IMS

### Profile

- Independent UK Multi-manager provider

## SEI

### Profile

- Significant US-based Multi-manager

## HSBC MM

### Profile

- HSBC development of business acquired as part of Bank of Bermuda

## Close Multi-manager

### Profile

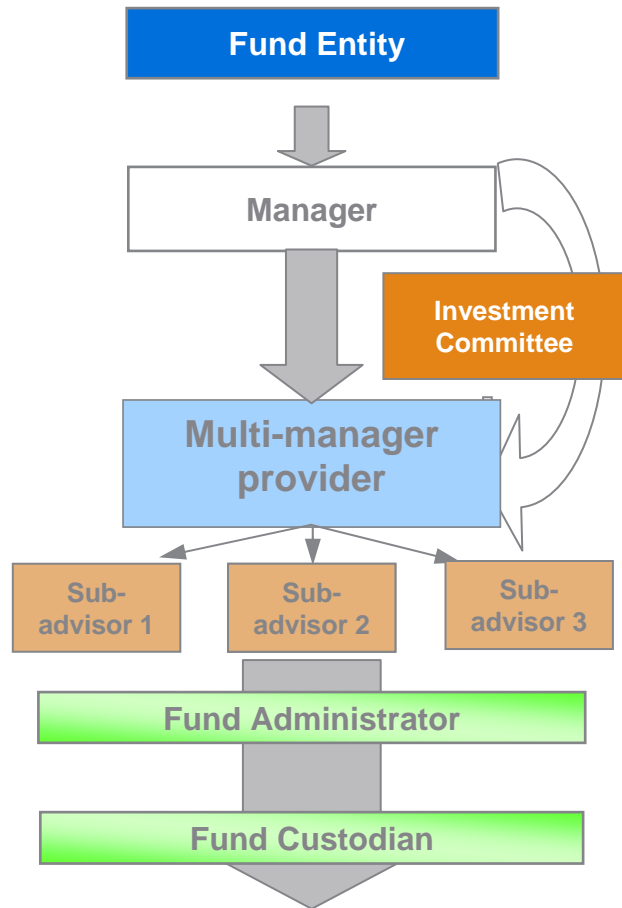
- Recent acquisition by Close of Aon Asset Management

## MLC

### Profile

- Australian-based Multi-manager provider

- How does it work and who does what?
- What core services and ancillary support is available?
- Views on a commercial model
- Thoughts from personal experience



## Roles

Fund Entity	Responsibilities delegated by fund directors to Manager
Manager	Defines product line-up. Appoints Multi-manager service provider. Responsible for operating the fund.
Investment Committee	Sets Fund Investment Objectives. Approves selection of underlying managers
Multi-manager Provider	Selects and monitors underlying managers. Contracts external managers. Monitors managers' performance. May supply additional operational support. In-house or external
Sub-advisors	Manage assets according to their respective guidelines
Administrator	Routine fund administration with additional complexities around multiple sub-portfolios.
Custodian	Custody and safekeeping of fund assets

Source: Russell

- Core service:
  - All Multi-manager providers deliver process to assess, select and monitor managers to deliver the investment returns required for the fund.
- Ancillary / support services:
  - Some of the Multi-manager providers offer support in the following areas:
    - marketing materials – to help the introduction of the proposition to internal or external clients (there may be resistance to change)
    - training materials - to increase the chances of success in rolling out the Multi-manager proposition (ensure the key messages are understood), or
    - reporting – by providing high-quality output for distribution to clients
    - logistical – by providing fund set-up and administration services

## Capital Markets Research

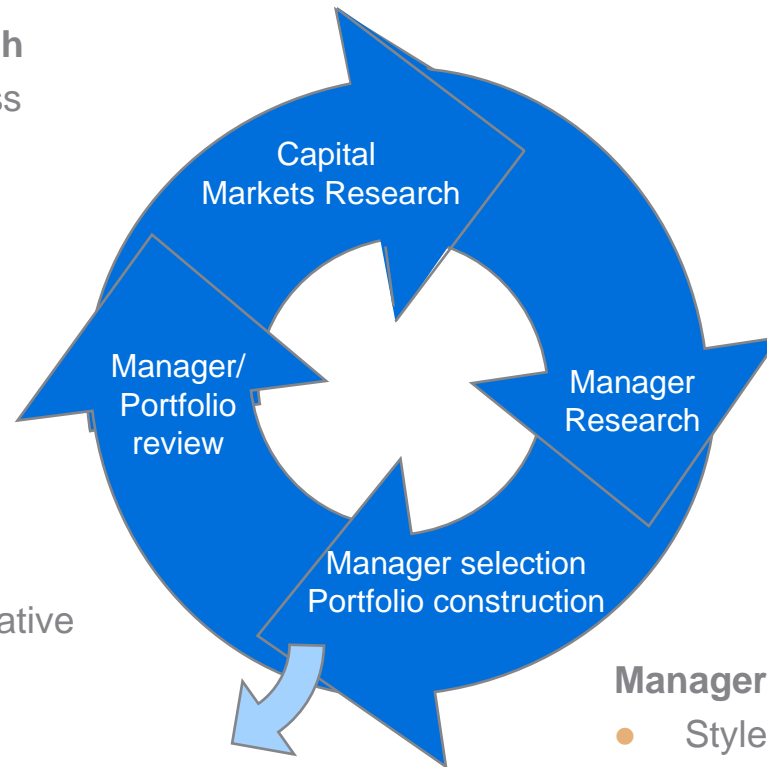
- Market and asset class performance drivers

## Monitor, review

- Monitor vs. investment guidelines
- Quantitative and qualitative factors

## Appoint manager

- Agree investment guidelines



## Manager research

- Quantitative screening – performance, risk, consistency, skill or environmental factors
- Qualitative assessment – philosophy, governance, people, organisation, references
- Face-to-face meetings
- Rank

## Manager selection, portfolio construction

- Style analysis
- Correlation analysis, new manager complementary with portfolio

# Support building blocks – SEI as an example

## Training Support

Technical Training

Product Solutions

Client Presentations

Support Staff

## Communications

Market Commentary

Internal Performance Calls

Web-based Adviser Toolbox

Bespoke Service Model

## Marketing Support

Investment Guide

Solution Sheets

Manager Profiles

Brochure/Website Text

## Advice Support

Presentation Materials

Training And Hands-on Support

Proposal Generator

Transition Planning

## Client Reporting

Transaction Reports

Monthly, Quarterly, Half Yearly

Account Performance

Monthly, Quarterly, Half Yearly

Tax Statements

Annually

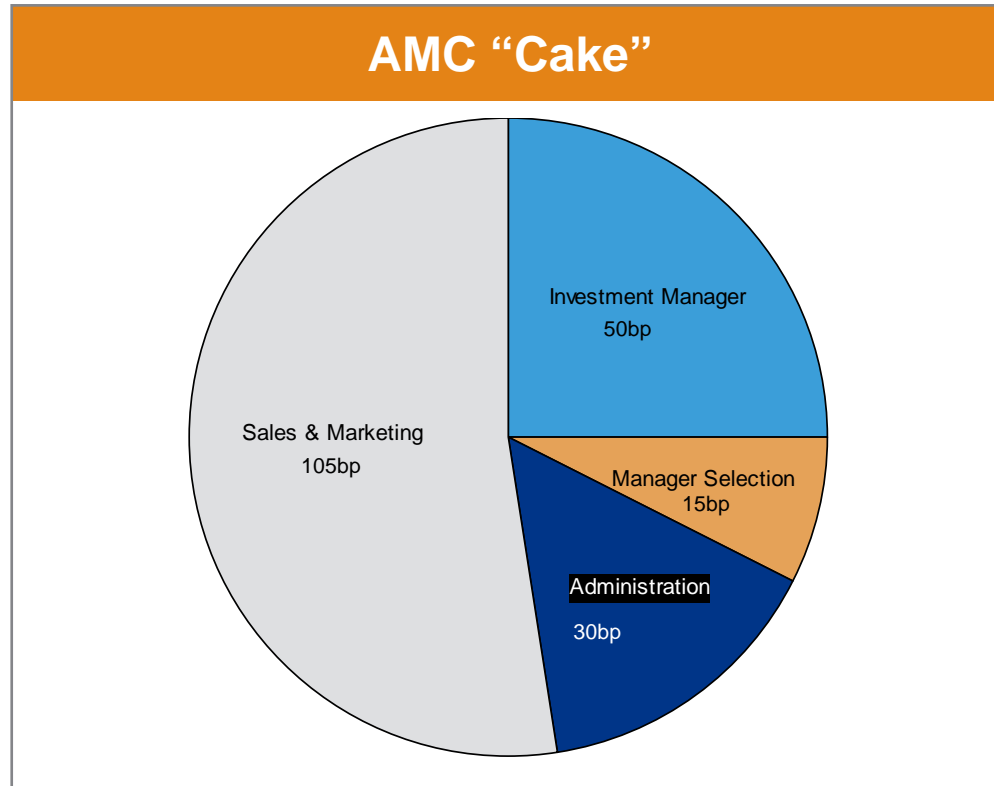
Fund Reporting

Monthly, Quarterly

Online Account Access

Monitoring Updates

Source: SEI



Distribution of an assumed multi-manager fund annual management fee of 200bp

It must be done right!

Consider:

- Product pricing issues – how does the pricing model work for your clients and your business?
- Clients' investment mandate requirements - is the fund mandate balance of risk and return right? Client profiling might be necessary to ensure suitability
- Ensure the transition from old to new business model is as pain-free as possible, by:
  - Planning for the controlled migration of client funds into the new products / service
  - Development and deployment of internal and external marketing / communication
  - Deployment of product support materials to ensure the proposition is correctly understood
  - Designing and implementing the processes / operating model required to deliver a Multi-manager service, including administration, accounting and client reporting

# That's all folks.....

- Questions?

To be the leading business and IT consultancy and integration firm in our chosen sectors and markets, delivering objective advice combined with proven delivery capability

