



The Role of the Investment Consultant

FPPTA Trustee School

Burgess B. Chambers, M.B.A.
&
Sidney H. Taylor, M.B.A.

October 8, 2007

Institutional Investment Advisor

601 North New York Avenue, Suite 200 Winter Park, FL 32789 (407) 644-0111 (407) 644-0694 fax, (800) 229-0694



Florida Statute Description of Consultant

6)(a) At least once every 3 years, the board of trustees shall retain a professionally qualified independent consultant who shall evaluate the performance of any existing professional money manager and shall make recommendations to the board of trustees regarding the selection of money managers for the next investment term. These recommendations shall be considered by the board of trustees at its next regularly scheduled meeting. The date, time, place, and subject of this meeting shall be advertised in the same manner as for any meeting of the board.

(b) For purposes of this subsection, the term "professionally qualified independent consultant" means a consultant who, based on education and experience, is professionally qualified to evaluate the performance of professional money managers, and who, at a minimum:

1. Provides his or her services on a flat-fee basis.
2. Is not associated in any manner with the money manager for the pension fund.
3. Makes calculations according to the American Banking Institute method of calculating time-weighted rates of return. All calculations must be made net of fees.
4. Has 3 or more years of experience working in the public sector.



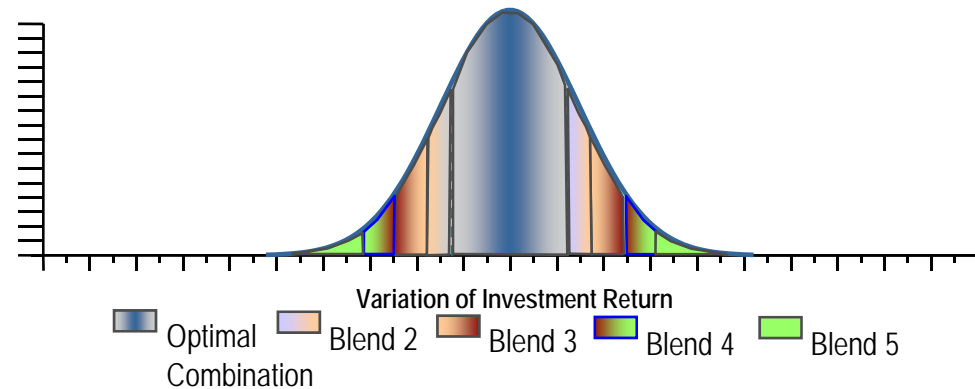
What Plan Sponsors believe to be Important Consulting Services

1. Asset Allocation
2. Manager Searches\Review
3. Performance Measurement
4. New Ideas
5. Due Diligence
6. Investment Policy Statement (IPS)
7. Others
 - Delegate fiduciary responsibility
 - Education



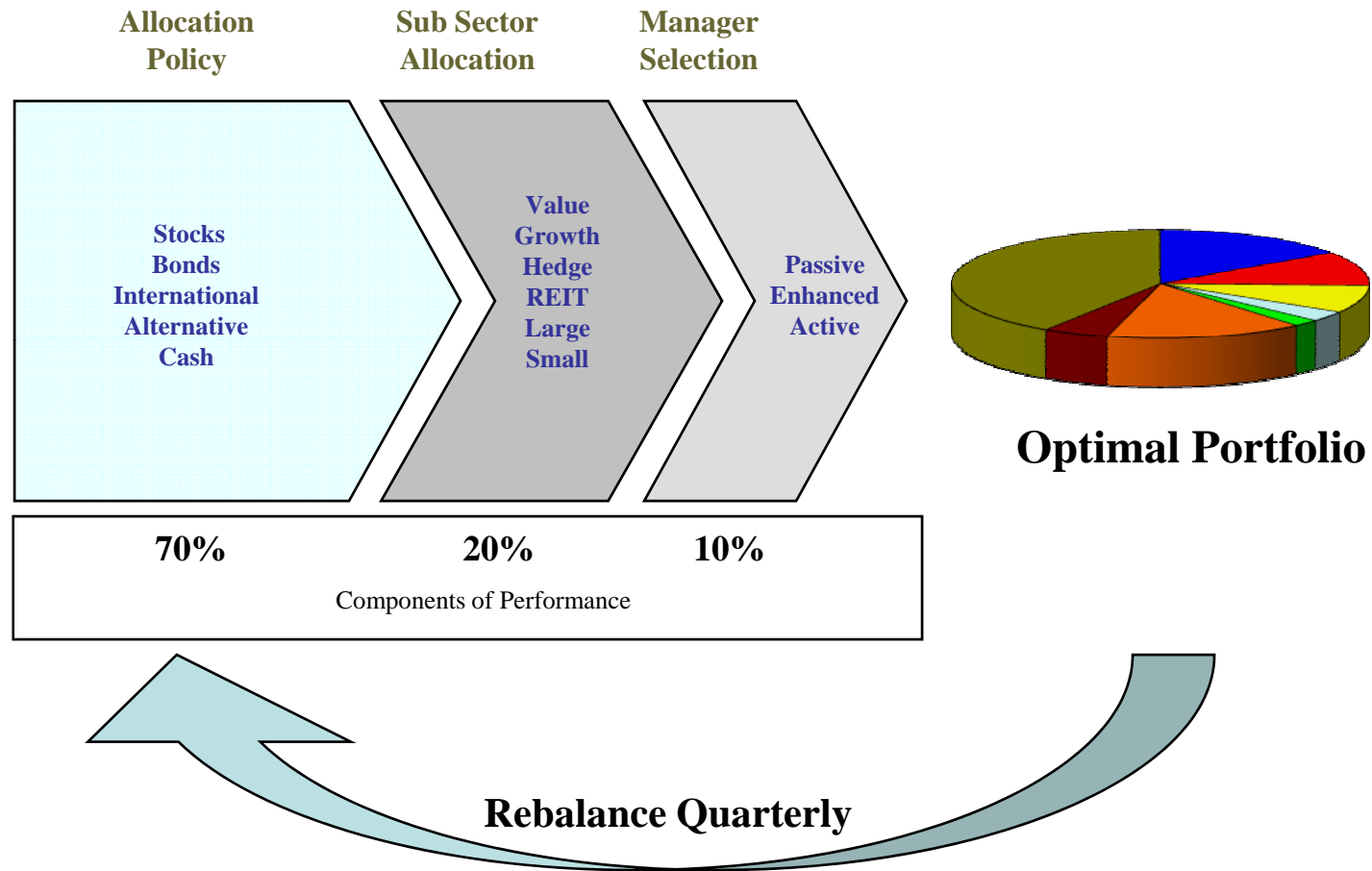
Asset Allocation

- Evaluate Target Allocation
- Rank Expected Risk by Asset Class
- Optimize Asset Allocation and Test
- Blend Low Correlating Asset Classes
- Rebalance
- In Depth research





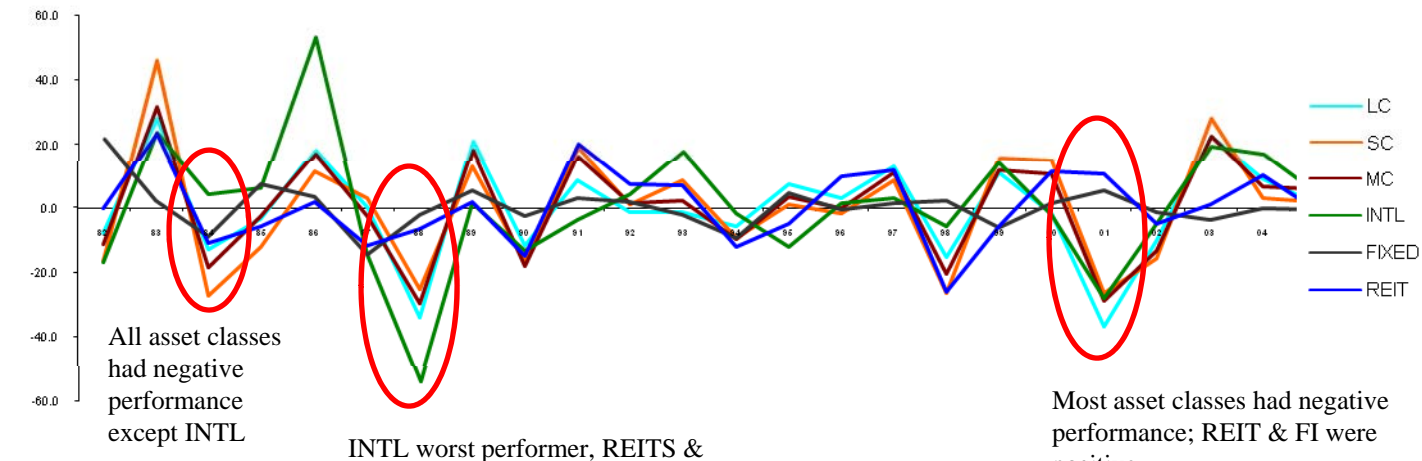
Asset Allocation is 90% of Performance





Asset Class Research (Why Diversify?)

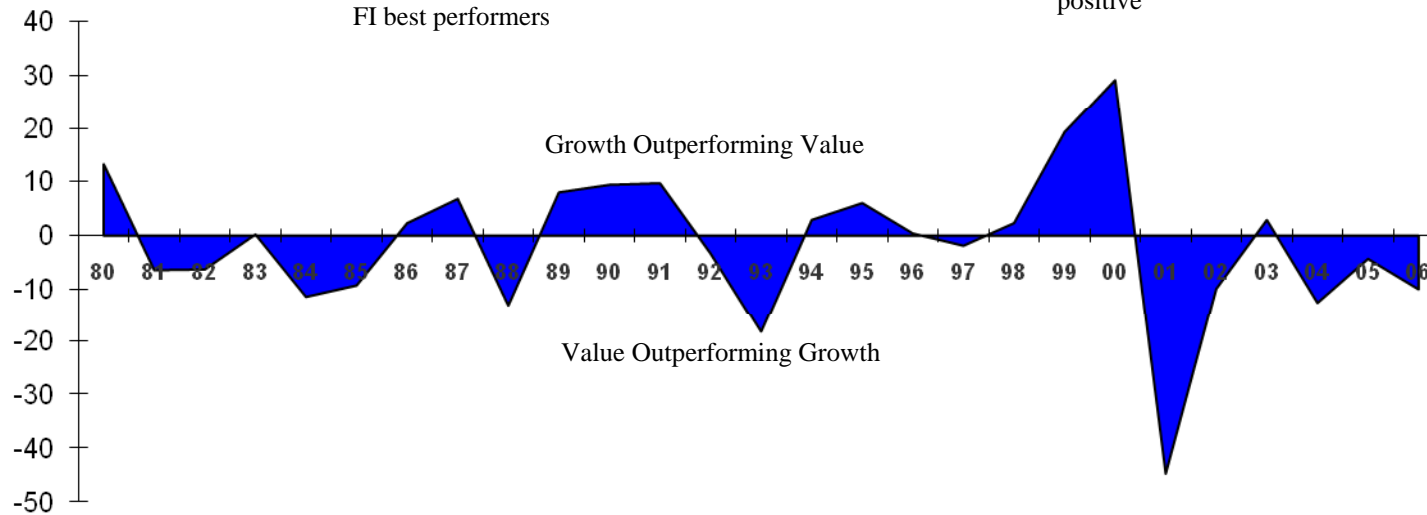
Asset Class Variance from Equilibrium (3 yr. Average)



All asset classes had negative performance except INTL

INTL worst performer, REITS & FI best performers

Most asset classes had negative performance; REIT & FI were positive





Manager Performance Reviews

- Operation
 - ✓ Back office administration
 - ✓ Regulatory compliance
 - ✓ Risk reporting and controls
 - ✓ Legal and financial structure
 - ✓ Human resources

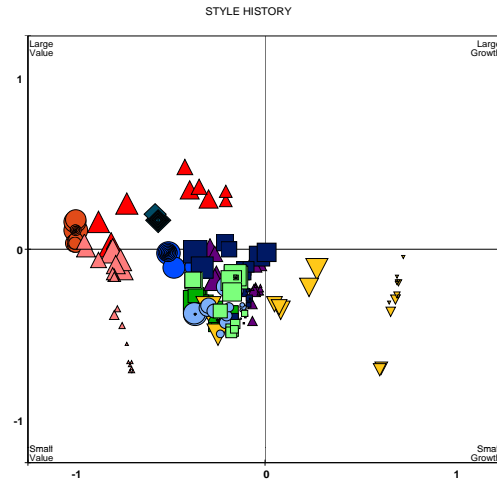
- Invite Managers to Annual Meetings

- Style Drift and Industry Concentration

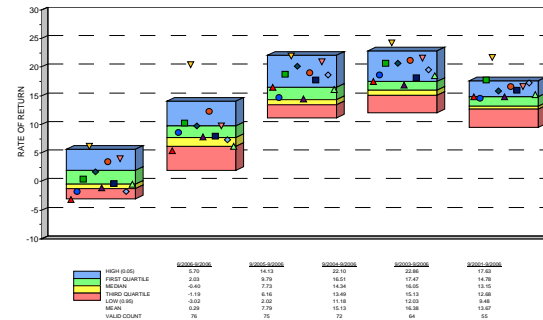
- Turn-Over (security trading)

- Volatility of Returns

- Performance
 - ✓ Objective Index
 - ✓ Peer Group



QUARTILE RANKING BAR
PSN MID CAP CORE UNIVERSE
SEPTEMBER 30, 2001 TO SEPTEMBER 30, 2006





Plan Performance Reviews - Quarterly

- Investment Summary
- Compliance Checklist
- Plan Performance vs. Benchmark and Peer Group
- Net Returns are Lower Than Gross Returns
- Verify Commission Costs
- Compare Manager Returns to Composites
- Is Plan Performance Beating the Benchmark?
- Are Peer Rankings Above Average?
- Are Asset Valuations Correct?



Review Investment Policy Statement

- Return Objective – actuarial interest rate assumption
- State and Local Laws
- Is the Program Working?
- How Is the IPS Influencing Results?
- Are Guidelines In Compliance?
 - Allowable
 - Prohibited
- Asset Allocation – Review



Introduce New Ideas

- ❑ **Risk Management**
 - Relative Valuations
 - Predict Risk instead of Return

- ❑ **New Asset Allocation Models**

- ❑ **Alternative Asset Classes**
 - REITS
 - Hedge Funds
 - TIPS
 - Private Real Estate
 - Commodities
 - Infrastructure

- ❑ **Liability Driven Investing**

- ❑ **Indexing**
 - Improve Diversification
 - Reduce Risk
 - Reduce Costs by 75%



Cost Management

- Does Investment Platform Offer Lower Cost Approach?
- Management Fees - Review
- Do Managers Offer Lower Fees to Others?
- Eliminate Revenue Sharing and Finders Fees
- Commission Costs - Review