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By Andrew Ross Sorkin

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Here's a brainteaser: Would you invest $10,000 in a mutual fund without knowing its past performance? Probably not. Yet, if you were in charge of $13 trillion of pension money, would you accept the recommendation of an investment consultant without knowing its performance record? The answer is yes. It happens every day.

Welcome to the bizarre world of pension funds and investment consultants. At a time when individual investors are increasingly demanding transparency in performance track records, the biggest slice of the investment world — pension funds — has conspicuously turned a blind eye to demanding track records from their most influential advisers, investment consultants.

A new study by professors at the University of Oxford is causing a stir in the staid pension investment industry, highlighting the subpar performance of most consultants and, more important, the lack of disclosure that would allow the public to even know about it.

The study demonstrates, perhaps for the first time, that the investment consultants that pension funds rely on to advise them about what funds and investments they should make — resulting in tens of millions of dollars in fees each year — are, as one of the authors of the survey says, "worthless."

"It's a waste of money listening to consultants," Howard Jones, one of the authors of the study, told me he concluded. "It's a service that is useless."

Mr. Jones and his colleagues, Tim Jenkinson and Jose Vicente Martinez, examined the recommendations of investment consultants from 1999 to 2011 related to United States equities. It culled the data from Greenwich Associates, which had collected it anonymously from 29 firms, representing 91 percent of the entire investment consulting industry's market share in the United States.

The result of the study is nothing short of breathtaking if you're in the investment management business: "The analysis finds no evidence that the recommendations of the investment consultant for these U.S. equity products enabled investors to outperform their benchmarks or generate alpha," a measure of performance that adjusts for risk. The study found that, on average, the consultants' recommendations underperformed their benchmarks by about 1 percent.

Those recommendations are worth big fees to the consulting firms. In 2012, Calpers, the big California pension fund, paid $33 million in fees to outside investment consultants. CalSTRS, the California teachers' fund, spent nearly $9 million. New York State and Local Retirement System spent nearly $7 million. Pennsylvania State Employees' Retirement System spent about $4 million. The list goes on.

The investment consulting industry has always been a powerful force in directing how trillions of dollars are allocated every year to different investment firms and hedge funds, but it has long hidden in the shadows. Pension funds hire the outside consultants to help them determine where to invest their money. "Consultants' recommendations have a large influence on investor allocation decisions and confirms survey data which reports that manager selection is one of the most highly valued services offered by consultants," the study found.

According to a survey conducted in 2011 by Pensions and Investments, 94 percent of pension funds use a consultant. Of those, nearly a quarter of the pension funds said the recommendation by a consultant was "crucial" to their decision and 40 percent said it was "very important."

Yet the firms don't disclose their track records. About six firms control about 60 percent of the market, Mr. Jones said. The biggest and most influential investment consultants are Mercer Investment Consulting, Russell Investments, Towers Watson Investment, Cambridge Associates, Hewitt EnnisKnupp, R. V. Kuhns &

Associates, Callan Associates, Pension Consulting Alliance, Strategic Investment Solutions and Wilshire Associates. Wilshire has long been a top consultant to Calpers, for example.

Why do pension funds use outside investment consultants?

"It's backside-covering," Mr. Jones said. "It's easy to say you took expert advice," saying the rationale is similar to the adage "Nobody got fired for hiring I.B.M."

That may be a bit unfair. There is clearly a place for consultants, who can often introduce pension funds to new asset classes or particular investment managers, a point Mr. Jones made as well. But as investors, consultants are, well, no better than consultants.

Mr. Jones's study said that one reason pension funds don't hold the consultants accountable for their advice was that they were considered "'money doctors with whom investors develop a relationship of trust, and this in turn gives them confidence when they select fund managers."

Still, the lack of transparency on performance track records seems to be a conspicuous hole in the investment process.

Somewhat oddly, Andrew Kirton, global chief investment officer at Mercer, was quoted this week in the trade magazine Pensions and Investments defending the lack of transparency.

"It's in our clients' interest to have the level of transparency that we have. We're not forced by marketing purposes to give advice we think isn't the best due to polishing numbers that makes us look better in a survey," Mr. Kirton said. "You can make yourself potentially a hostage to data."

Mr. Jones said he was perplexed when he read that. "They are not willing to be transparent with their own performance," he said. "It has to make you very curious about their motivations."

Ultimately, Mr. Jones wrote, the lesson of his research "would be to require investment consultants to provide the same high level of disclosure as that which is provided by fund managers on their performance, or the same level of disclosure provided by research analysts on their stock recommendations."
