



ACTIVE MANAGEMENT

How to Use Active Managers Effectively

Paul Kenny
Senior Consultant
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GUY CARPENTER OLIVER WYMAN

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How to use Active Managers Effectively

*Active
Management*

1. Does it make a difference?
2. How do we access it successfully?

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1 - Does it make a difference?

Sample scheme

- A. Contributions paid to target fixed fund size
- B. Fund size with equal contributions
- C. Contributions required to fund deficit

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(A) Contributions paid

	Passive Only	Outperforming Managers	Underperforming Managers
Total contributions required to target €25m fund at end 2008	€27m	€23m	€31m

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(B) Fund size with equal contributions

	Passive Only	Outperforming Managers	Underperforming Managers
Fund size at end 2008 with equal contributions	€22m	€25m	€19m

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(C) Contributions required to fund deficit over 10 years

	Passive Only	Outperforming <i>Equity</i> Managers	Underperforming <i>Equity</i> Managers
Total contributions required to fund €10m deficit over 10 years	€6m	€2m	€10m

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	Passive Only	Outperforming Managers	Underperforming Managers
(A) Total contributions required to target €25m fund at end 2008	€27m	€23m	€31m
(B) Fund size at end 2008 with equal contributions	€22m	€25m	€19m
(C) Total contributions required to fund €10m deficit over 10 years	€6m	€2m	€10m



2 - How do we access it successfully?

- Need to consider the case for active management for different asset classes
- High quality active managers need to be:
 1. Identified
 2. Diversified
 3. Replaced

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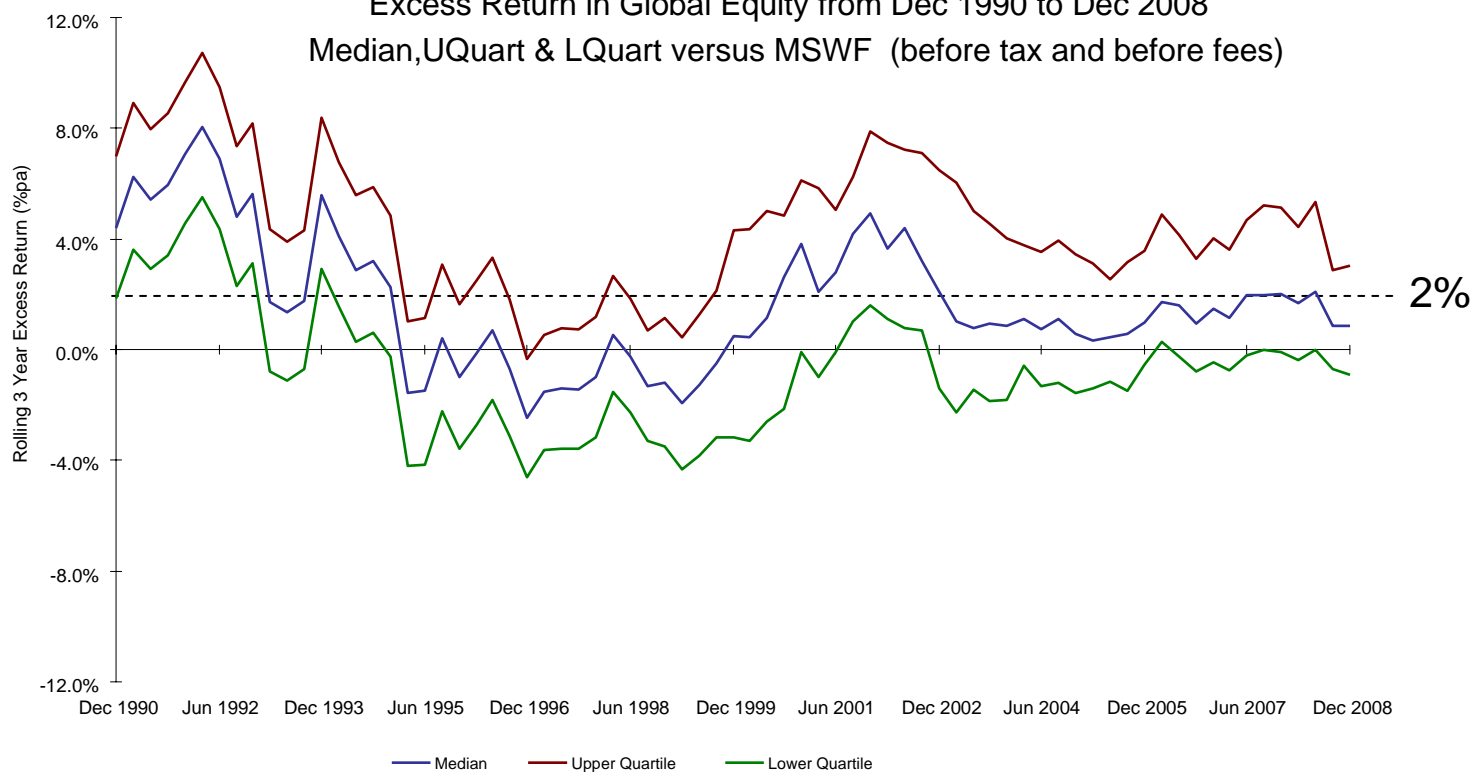


Global equities

Active Global Equity - Relative Performance

Excess Return in Global Equity from Dec 1990 to Dec 2008

Median, UQuart & LQuart versus MSWF (before tax and before fees)



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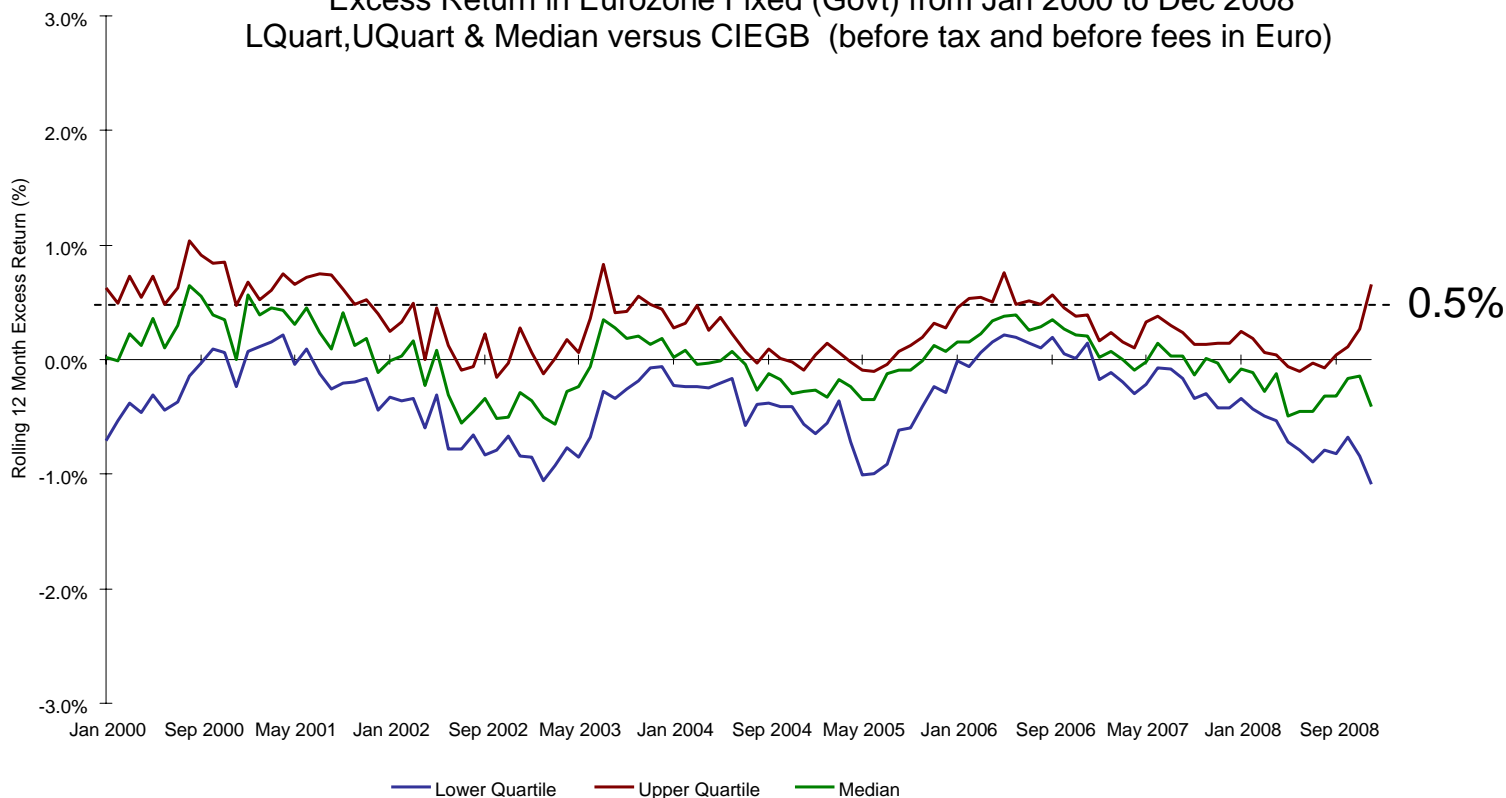
Notes: MSWF = MSCI World; Data set subject to survivorship and backfilling bias



Eurozone government bonds

Eurozone Government Bonds

Excess Return in Eurozone Fixed (Govt) from Jan 2000 to Dec 2008
LQuart,UQuart & Median versus CIEGB (before tax and before fees in Euro)



Notes: CIEGB = Citigroup EGBI; Data set subject to survivorship and backfilling bias

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Need to identify/diversify/replace *effectively*

- 2008 Global equity returns

MSW ■ -37.2

95th Percentile -25.2

Upper Quartile -35.2

Median -38.3

Lower Quartile -41.6

5th Percentile -49.0

Number of Funds 363

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Identify/Diversify/Replace Effectively

- If trustees do not have sufficient time and resources for this, options to consider include:
 - A. Establish an investment sub-committee
 - B. Avail of increased investment consultancy support
 - C. Employ passive management only

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Summary

- Key trustee focus should be on strategic issues (e.g. equity/bond split)
- Active management can also add value over the *long-term*
- If active management is to be pursued, it is crucial that the scheme can access outperforming managers effectively
- If this is not the case, consideration should be given to passive management

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