The Supply in Investment Consulting – Empirical Analysis of Business Model and Value Chain

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Abstract

This paper provides an empirical analysis of the supply in investment consulting from a worldwide perspective. It differentiates between the regions Americas, EMEA and APAC as well as the Anglo-Saxon and the non-Anglo-Saxon regions. The business model and value chain are analyzed by comparing the supply and demand of services according to asset categories, by presenting a SWOT (strengths, weaknesses, opportunities and threats) analysis of exogenous and endogenous factors, and by presenting various compensation models. Exogenous are facts that influence investment consulting externally, i.e. through the asset management business, while endogoenous drivers influence this market segment from an internal point of view.

Keywords

Investment consulting, business model and value chain, manager selection and its process, instruments and criteria, self-image of investment consultants, SWOT analysis of exogenous and endogenous factors including consulting-barbell, convergence of asset management and investment consulting, implemented consulting and fiduciary management as well as consultants for investment consultants (meta-consultants), compensation models in investment consulting.

The Supply in Investment Consulting

The analysis of supply begins with a differentiated discussion of business models and the value-added chain, followed by manager selection with the elements process, instruments and criteria.

Business Model and Value Chain

The business model and value chain are analyzed by comparing the supply and demand of services according to asset categories,[1] by presenting a SWOT analysis of exogenous and endogenous factors, and by presenting various compensation models.

In order to analyze the supply of and the demand for services, data was collected on the significance of 19 items. The supply range was differentiated into proprietary services and services offered in cooperation with partners. The supply range was differentiated according to the frequency of services used. The frequency was characterized by the attributes 'permanently' and 'sometimes'.

Looking at the supply from a worldwide perspective, it can be observed that the three types of services 'guidance on investment policy' with 91.5 %, 'portfolio monitoring' with 88.1 %, and 'manager monitoring' with 86.4 % are at the top of the list of the proprietary supply range. They are followed by the four service categories 'manager selection' with 84.7 %, 'strategic asset allocation' with 83.1 %, and 'educational services to trustees' and 'dynamic asset allocation' with 69.5 % each.

Concurrently, 'transition services' with 37.3 %, 'asset liability management' with 28.8 %, and 'performance measurement' with 27.1 % are the threee most important types of services offered in cooperation with partners.

With the exception of APAC,[2] this pattern is essentially repeated troughout all regions, although it can be observed that individual frequency values and the ranking of these services vary within the individual regions. The following table shows the results in detail.

It is noticeable that 'educational services to trustees' are attributed higher significance in the Anglo-Saxon regions with 77.8 % - and especially in the Americas with 81.8 % - than in the EMEA region with 61.8 % and in the non-Anglo-Saxon regions with 56.5 %. The chi-square test shows that with a value of $p = 0.631$ this is not significant (n.s.) for the Americas region, but very significant for the Anglo-Saxon regions with a value of $p = 0.01$ (**).

Worldwide, demand shows that the five service categories 'asset liability analysis' with 39.5 %, 'strategic asset allocation' and 'manager monitoring' with 36.8 % each, plus 'portfolio monitoring' and 'performance measurement' with 34.2 % each, take the top three positions in the ‘permanantly’ category. In the 'sometimes' category, the three most frequently used types of services are 'guidance on investment policy' with 55.3 %, 'manager selection' with 50.0 %, and 'educational services to trustees' with 47.4 % of the responses.

As in the case of demand, the picture remains essentially the same in all regions. But it has to be noted that here, too, individual frequency values and, correspondingly, the rankings of demanded services vary within the regions and between the categories of 'permanently' and 'sometimes'. Additionally, other services have similarly high frequency values. Therefore, it is possible to speak of a larger demand for these services.

A closer look at the supply of manager selection shows that – with values of almost 80% and higher - this type of service is offered in all regions by many investment consultants. With 95.5 % of all responses, the highest value is found in the Americas region. In the category of ‘demand by institutional investors’ it is noticeable that this type of service is predominantly in sporadic demand ('sometimes'); with 69.2 % of all responses it is highest in the Anglo-Saxon regions. However, with a chi-square test value of $p = 0.209$ both results are not significant (n.s.).

It is remarkable that with a value of 68.2 %, implemented consulting is offered by the majority of investment consultants in the Americas region. Even in the region with the lowest value, in EMEA, the frequency is still around 50 % of all responses. It is further conspicuous that there is a clear discrepancy between supply and demand. With 56.5 % for supply and only 8 % for demand, this discrepancy is especially high in the non-Anglo-Saxon regions and in EMEA with 50 % for supply and only 8.7% for demand. The chi-square test shows that with $p = 0.005$ this is very significant (**) for the non-Anglo-Saxon regions and with $p = 0.0001$ it is highly significant for EMEA (***). This allows the conclusion that in this case, the demand is either still underdeveloped and there is a large market potential, or that implemented consulting is primarily supply-driven. Based on theoretical insights, we prefer the second variant.

For the analysis of supply and demand of asset categories, the significance of ten individual items was examined using the same differentiation that was used in the service supply analysis.

[1] Meaning the asset classes that the manager research encompassed.

[2] Due to the low number of repondents in this region, the results pertaining hereto will be disregarded.

	Wordwide								Anglo-Saxon Influenced								Non-Anglo-Saxon Influenced							
	Investment Consultants Supply (n: 59)				Institutional Investor Demand (n: 38)				Investment Consultants Supply (n: 36)				Institutional Investor Demand (n: 13)				Investment Consultants Supply (n: 23)				Institutional Investor Demand (n: 25)			
	proprietary		in cooperation with partners		permanently		sometimes		proprietary		in cooperation with partners		permanently		sometimes		proprietary		in cooperation with partners		permanently		sometimes	
	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%	Rk	%
Educational Services to Trustees	6	69,5	12	10,2	10	5,3	3	47,4	4	77,8	8	11,1	4	7,7	1	84,6	6	56,5	8	8,7	9	4,0	4	28,0
Guidance on Investment Policy	1	91,5			7	13,2	1	55,3	1	88,9			3	15,4	5	53,8	1	95,7			7	12,0	1	56,0
Asset Liability Analysis	11	52,5	2	28,8	1	39,5	5	36,8	8	55,6	3	25,0	3	15,4	2	76,9	8	47,8	1	34,8	1	52,0	7	16,0
Strategic Asset Allocation	5	83,1	12	10,2	2	36,8	4	42,1	3	83,3	10	5,6	2	23,1	5	53,8	4	82,6	6	17,4	2	44,0	3	36,0
Dynamic Asset Allocation	6	69,5	10	16,9	7	13,2	8	28,9	5	72,2	9	8,3			7	30,8	5	65,2	2	30,4	5	20,0	4	28,0
Manager Selection	4	84,7	13	8,5	4	31,6	2	50,0	2	86,1	9	8,3	2	23,1	3	69,2	4	82,6	8	8,7	3	36,0	2	40,0
Selection of Custody Providers	10	54,2	9	18,6	11	2,6	7	31,6	8	55,6	6	16,7			6	46,2	7	52,2	5	21,7	9	4,0	5	24,0
Transition Services	14	27,1	1	37,3			5	36,8	11	36,1	1	38,9			5	53,8	11	13,0	1	34,8			4	28,0
Implementation	8	59,3	8	20,3	11	2,6	9	26,3	6	63,9	7	13,9			7	30,8	7	52,2	2	30,4	9	4,0	5	24,0
Portfolio Monitoring	2	88,1	13	8,5	3	34,2	12	18,4	2	86,1	9	8,3	3	15,4	7	30,8	2	91,3	8	8,7	2	44,0	8	12,0
Performance Measurement	8	59,3	3	27,1	3	34,2	13	15,8	6	63,9	2	27,8	1	30,8	8	23,1	7	52,2	3	26,1	3	36,0	8	12,0
Manager Monitoring	3	86,4	13	8,5	2	36,8	10	23,7	2	86,1	9	8,3	2	23,1	7	30,8	3	87,0	8	8,7	2	44,0	6	20,0
Asset Liability Management	12	50,8	4	25,4	6	23,7	6	34,2	9	50,0	3	25,0			4	61,5	7	52,2	3	26,1	3	36,0	6	20,0
Overlay Management	15	23,7	6	23,7	8	10,5	11	21,1	13	22,2	2	27,8			7	30,8	9	26,1	6	17,4	6	16,0	7	16,0
Risk Management	9	57,6	5	23,7	6	23,7	10	23,7	7	58,3	4	22,2	4	7,7	7	30,8	6	56,5	3	26,1	4	32,0	6	20,0
Controlling and Reporting	7	66,1	7	22,0	5	26,3	15	10,5	5	72,2	5	19,4	3	15,4	8	23,1	6	56,5	3	26,1	4	32,0	10	4,0
Administration Services	16	22,0	7	22,0	9	7,9	14	13,2	12	25,0	4	22,2	4	7,7	9	15,4	10	17,4	5	21,7	8	8,0	8	12,0
Implemented Consulting	9	57,6	13	6,8			14	13,2	7	58,3	11	2,8			8	23,1	6	56,5	7	13,0			9	8,0
Fiduciary Management	13	32,2	11	11,9			14	13,2	10	44,4	10	5,6			8	23,1	11	13,0	5	21,7			9	8,0

	Americas								EMEA								APAC							
	(n: 22)				(n: 11)				(n: 34)				(n: 23)				(n: 3)				(n: 4)			
Educational Services to Trustees	4	81,8	5	13,6	2	18,2	1	63,6	7	61,8	8	8,8			3	34,8	2	66,7					1	75,0
Guidance on Investment Policy	1	95,5			3	9,1	2	54,5	2	88,2			9	13,0	1	60,9	1	100,0			1	25,0	3	25,0
Asset Liability Analysis	9	50,0	3	31,8	3	9,1	1	63,6	8	55,9	1	29,4	1	60,9	9	17,4	3	33,3					1	75,0
Strategic Asset Allocation	2	90,9			2	18,2	2	54,5	5	76,5	5	17,6	2	47,8	3	34,8	1	100,0			1	25,0	2	50,0
Dynamic Asset Allocation	5	72,7	7	4,5			4	36,4	6	64,7	2	26,5	7	21,7	4	26,1	1	100,0					3	25,0
Manager Selection	1	95,5	7	4,5	1	27,3	3	45,5	4	79,4	7	11,8	5	34,8	2	47,8	2	66,7			1	25,0	1	75,0
Selection of Custody Providers	6	68,2	4	22,7			5	27,3	11	47,1	6	14,7	10	4,3	4	26,1	3	33,3	1	33,3			1	75,0
Transition Services	11	36,4	1	50,0			2	54,5	13	20,6	1	29,4			4	26,1	3	33,3	1	33,3			2	50,0
Implementation	5	72,7	5	13,6			5	27,3	9	52,9	2	26,5	10	4,3	8	21,7	3	33,3					2	50,0
Portfolio Monitoring	3	86,4	5	13,6	2	18,2	5	27,3	1	91,2	9	2,9	2	47,8	8	8,7	2	66,7	1	33,3			2	50,0
Performance Measurement	7	63,6	2	36,4	1	27,3	6	18,2	8	55,9	4	20,6	3	43,5	7	13,0	2	66,7	1	33,3			3	25,0
Manager Monitoring	2	90,9	6	9,1	1	27,3	5	27,3	3	85,3	8	8,8	3	43,5	8	21,7	2	66,7			1	25,0	3	25,0
Asset Liability Management	10	45,5	3	31,8			2	54,5	9	52,9	3	23,5	4	39,1	4	26,1	2	66,7					3	25,0
Overlay Management	12	22,7	2	36,4			5	27,3	12	23,5	5	17,6	8	17,4	9	17,4	3	33,3					3	25,0
Risk Management	8	59,1	4	22,7	1	27,3	5	27,3	9	52,9	2	26,5	6	26,1	8	21,7	1	100,0					3	25,0
Controlling and Reporting	7	63,6	4	27,3	2	18,2	5	27,3	6	64,7	4	20,6	5	34,8	9	4,3	1	100,0						
Administration Services	11	36,4	4	27,3	2	18,2	7	9,1	15	8,8	4	20,6	10	4,3	7	13,0	2	66,7					3	25,0
Implemented Consulting	6	68,2					5	27,3	10	50,0	7	11,8			8	8,7	2	66,7						
Fiduciary Management	8	59,1	6	9,1			5	27,3	14	14,7	7	11,8			8	8,7	3	33,3	1	33,3				

Fig. 1: Comparison between supply and demand of services.

A look at the worldwide supply shows that the asset classes or items 'all/ most traditional asset classes' with 86.4 %, 'absolute return strategies' with 81.4 %, and 'real estate' with 71.2 % rank first to third in the proprietary range of supply. 'Hedge fund-of-funds' with 67.8 % and 'hedge funds' with 66.1 % come in fourth and fifth and also belong to the most frequent asset categories. On the other hand, 'infrastructure' with 16.9 %, and 'private equity' with 15.3 % are the two most significant asset categories offered in cooperation with partners.

Basically, this picture can be observed in all regions, although it has to be noted that ’hedge funds’ with 75 % and ’hedge fund-of-funds’ with 72.2 % in the Anglo-Saxon regions, and in the Americas with 86.4 % and thereby in third place, are attributed higher significance. It is conspicuous that the asset categories 'real estate' with 65.2 % and 'commodities' with 56.5 % of the responses in the non-Anglo-Saxon regions and with 61.8 % or 52.9 % in the EMEA region, finished second and third. Here, these asset categories are of relatively higher significance in the range of services offered by investment consultants than worldwide. The chi-square test showed that these results are not significant (n.s.). ('Real estate' non-Anglo-Saxon vs. Anglo-Saxon $p = 0.114$; 'commodities' non-Anglo.-Saxon vs. Anglo-Saxon $p = 0.071$; 'real estate' EMEA vs. Americas $p = 0.516$; 'commodities' EMEA vs. Americas $p = 0.899$). It is also conspicuous that in the Americas the item 'all/ most traditional asset classes' received 100 % of the responses. Here, comparing the Americas with EMEA, the chi-square test shows a highly significant correlation with a value of $p \leq 0.001$ (***).

	Worldwide						Anglo-Saxon Influenced						Non-Anglo-Saxon Influenced					
	Investment Consultant Supply (n: 59)				Institutional Investor Demand (n: 38)		Investment Consultant Supply (n: 36)				Institutional Investor Demand (n: 13)		Investment Consultant Supply (n: 23)				Institutional Investor Demand (n: 25)	
	proprietary		in cooperation with partners				proprietary		in cooperation with partners				proprietary		in cooperation with partners			
	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%
All/ Most traditional asset classes	1	86,4	6	8,5	4	27,6	1	86,1	2	5,6	1	26,9	1	73,9	3	13,0	1	56,0
Some traditional asset classes	8	52,5	7	3,4	6	21,1	8	58,3	3	2,8	4	11,5	5	43,5	4	4,3	7	20,0
Hedge Funds	5	66,1	3	13,6	2	31,6	2	75,0	2	5,6	3	19,2	5	43,5	1	26,1	5	28,0
Hedge Fund-of-Funds	4	67,8	4	11,9	3	28,9	3	72,2	2	5,6	5	7,7	4	52,2	2	21,7	3	36,0
Private Equity	6	57,6	2	15,3	2	31,6	6	63,9	1	11,1	2	23,1	6	39,1	2	21,7	6	24,0
Infrastructure	7	55,9	1	16,9	5	23,7	7	61,1	1	11,1	5	7,7	5	43,5	1	26,1	5	28,0
Real Estate	3	71,2	3	13,6	1	44,7	4	69,4	1	11,1	2	23,1	2	65,2	3	13,0	2	44,0
Commodities	5	66,1	5	10,2	3	28,9	5	66,7	3	2,8	4	11,5	3	56,5	2	21,7	4	32,0
Currency	9	50,8	3	13,6	2	31,6	9	50,0	2	5,6	3	19,2	5	43,5	1	26,1	5	28,0
Absolute Return Strategies	2	81,4	6	8,5	6	21,1	1	86,1	2	5,6	5	7,7	2	65,2	3	13,0	6	24,0

	Americas						EMEA						APAC					
	(n: 22)				(n: 11)		(n: 34)				(n: 23)		(n: 3)				(n: 4)	
All/ Most traditional asset classes	1	100,0			2	22,7	1	70,6	5	14,7	3	28,3	2	66,7			3	37,5
Some traditional asset classes	8	50,0			3	18,2	4	50,0	6	5,9	2	26,1	1	100,0				
Hedge Funds	3	86,4			1	36,4	5	47,1	2	23,5	4	30,4	2	66,7			4	25,0
Hedge Fund-of-Funds	3	86,4			3	18,2	4	50,0	3	20,6	5	39,1	2	66,7				
Private Equity	4	81,8	1	4,5	1	36,4	7	35,3	2	23,5	1	21,7	2	66,7			1	75,0
Infrastructure	6	72,7	1	4,5	4	9,1	6	41,2	1	26,5	2	26,1	2	66,7			2	50,0
Real Estate	5	77,3	1	4,5	1	36,4	2	61,8	4	17,6	6	43,5	2	66,7			1	75,0
Commodities	5	77,3			1	36,4	3	52,9	4	17,6	4	30,4	2	66,7				
Currency	7	54,5	1	4,5	1	36,4	6	41,2	3	20,6	4	30,4	2	66,7			4	25,0
Absolute Return Strategies	2	90,9			3	18,2	1	70,6	5	14,7	2	26,1	2	66,7				

Fig. 2: Asset categories – Comparison between supply and demand.

Overall, in the Anglo-Saxon regions and in the Americas, investment consultants offer research in more asset categories than investment consultants in the non-Anglo-Saxon and the EMEA regions. This is a clear sign of a more comprehensive supply range offered by investment consultants in these markets.

In the area of demand worldwide, the six asset categories 'real estate' with 44.7 %, 'hedge funds', 'private equity' and 'currency' with 31.6 % each, and 'hedge fund-of-funds' and 'commodities' with 28.9 % each, are the most frequent categories.

This picture does not pertain to all regions – rather, a relatively heterogeneous distribution of frequencies can be observed. It is especially noticeable that unlike in other regions the item 'all/ most traditional asset classes' in the non-Anglo.-Saxon region is by far the most frequent one with 56.0 %. This shows that in this region traditional asset categories are most demanded, and not manager research on alternatives or satellites. According to the chi-square test, this statement is with a value of $p = 0.127$ not significant for the comparison with the Anglo-Saxon regions (n.s.).

It is astonishing that the comparison of supply and demand shows extremely large discrepancies in all six regions for the item 'absolute return strategies'. The discrepancy is especially high in the Anglo-Saxon regions with 86.1 % for supply and only 7.7 % for demand, and in the Americas with 90.9 % for supply and only 18.2 % for demand. With a value of $p = 0.014$ the chi-square test shows that this conspicuity in the non-Anglo.-Saxon region is not significant (n.s.). In the EMEA region, this correlation is very significant with $p = 0.014$ (**), while it is highly significant (***) worldwide with $p <= 0.001$, in the Anglo-Saxon with $p \leq 0.001$ and in the Americas with $p = 0.001$. This allows for the conclusion that in this case, demand is either still underdeveloped and that there is very large market potential, or that absolute return strategies are primarily supply-driven in these regions. Based on practical experience, here, too, we prefer the second variant. In the non-Anglo-Saxon and in the EMEA regions this discrepancy is smaller, so here, our preferred conclusion is only partially valid.

The following illustration shows the self-image of investment consultants using a SWOT analysis of exogenous factors.[3]

Among the exogenous factors, weaknesses and threats were far less frequently listed than strengths and opportunities. With only single-digit frequencies, the segment of weaknesses is negligible. For threats, the highest frequencies are listed under 'war for talent' with 28.8 %, and 'convergence of AM and consulting' with 22.0 %.

3 SWOT = Strengths, Weaknesses, Opportunities and Threats.

This confirms only partially the statements in the theoretical section of this study on the significance of these two trends as threats to investment consulting, because the item 'convergence of AM and consulting' is also classified as an opportunity with 35.6 % of the responses. In the area of strengths, focal points are 'rising importance of alternatives' with 49.2 %, 'rising importance of risk management' with 47.5 %, and 'rising importance of ALM' with 42.4 % of the responses. In the area of opportunities, focal points are 'fiduciary management' with 44.1 %, 'rising importance of risk management' with 39.0 %, and 'globalization/ global reach' with 42.4 % of the responses.

Exogenous (n: 59)	Strength	Weakness	Opportunity	Threat	Don't know
Globalization/ Global reach	16,9%	6,8%	42,4%	6,8%	27,1%
Rising importance of ALM	42,4%	6,8%	25,4%	1,7%	23,7%
Passive Investments	30,5%	3,4%	25,4%	10,2%	30,5%
Rising importance of Alternatives	49,2%	3,4%	25,4%	8,5%	13,6%
Rising importance of Risk Manage-ment	47,5%	6,8%	39,0%	1,7%	5,1%
Convergence of AM and Consulting	23,7%	5,1%	35,6%	22,0%	13,6%
Fiduciary Management	16,9%	1,7%	44,1%	10,2%	27,1%
War for talent	16,9%	8,5%	15,3%	28,8%	30,5%

Fig. 3: SWOT- analysis of exogenous factors.

The next table shows the structure of the results, and thereby the self-image of investment consultants based on a SWOT analysis of endogenous factors.

Among the endogenous factors, too, weaknesses and threats were far less listed than strengths and opportunities. The most listed threats were 'online/ digital consultant platforms' with 15.3 % and 'set-up as one-stop-shop' with 13.6 %. Other than in the group of exogenous factors, the area of weaknesses does not only have one-digit frequencies. The following aspects are of higher significance: 'number of researchers' with 28.8 %, 'online/ digital consultant platforms' with 25.4 %, and 'no coverage of alternatives' with 20.3 %. In this context it should be emphasized that for 'online/ digital consultant platforms' the added values of weaknesses and threats amount to the by no means trivial value of 40.7 %. In the area of strengths, the unrivaled focus is on 'reputation/ brand of organization' with 83.1 % - the highest value of all responses. This indicates that the reputation of one's own company is considered high. Other important points are 'local focus' with 74.6 % (the third highest value of all responses), and 'number of researchers' with 40.7 %. In the area of opportunities, the focus is on 'implemented consulting' with 42.4 %, and, far behind, on 'consultants for investment consultants' with 22.0 %, followed by 'no offering for implemented consulting' with 18.6 %.

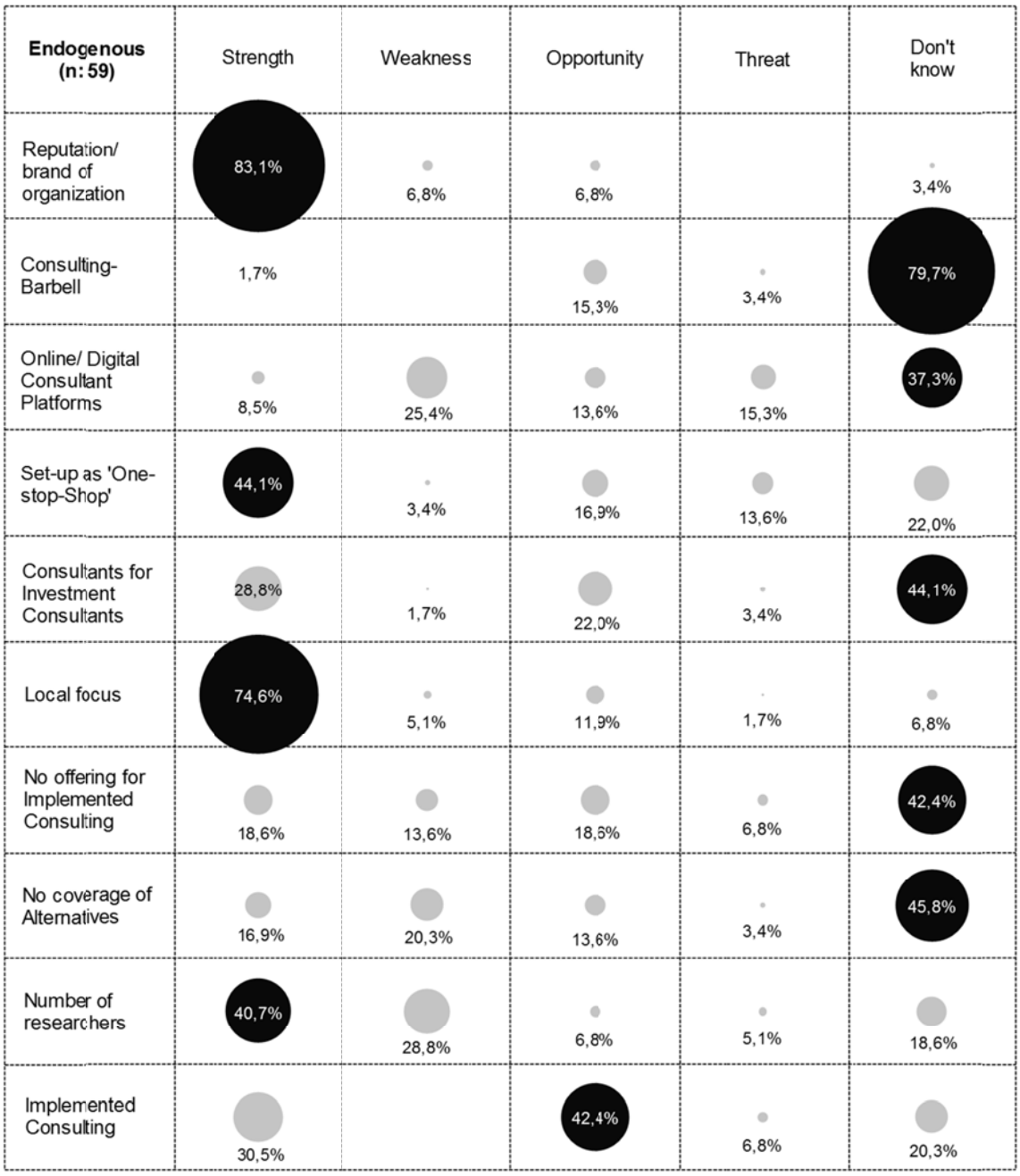


Fig. 4: SWOT analysis of endogenous factors.

In the analysis of endogenous factors it is remarkable that 79.7 % of the participants – the second highest value – do not know what to consider of the term 'consulting-barbell', and therefore their answer is simply 'don't know'. This is an indirect confirmation of the innovative level of this term and the analogy behind it. It is also remarkable that only 3.4 % of the participants see 'consultants for investment consultants' (meta-consultants) as a threat. On the contrary, this aspect is interpreted as a strength (28.8 %) or opportunity (22.0 %). This can be seen as a sign of confidence in the competence of one's own company and, possibly, as a hint to enter this new business area. An analysis of both exogenous and endogenous factors shows that the frequencies of interpreting 'fiduciary management' as an opportunity (exogenous) and of 'implemented consulting' (endogenous) are with 44.1 % and 42.4 % very close to each other. The reason is probably that these terms are perhaps interpreted as synonyms – i.e. in the way they are (still) used in practice – and not, as in our theoretical section, as terms for the business fields of asset managers on the one hand and for investment consultants on the other. The chi-square test value of $p \leq 0.001$ shows high

significance (***) for these items in their respective categories.

The questions on strengths, weaknesses, opportunities and threats were preceded by two open questions, where the participants could describe the uniqueness of their business model and the competitive advantages of their consulting process. The answers were systematized in a qualitative-explorative way by clustering according to the criteria of the '6-p-approach', which was adjusted for investment consultants.

The focus of the answers for the criterion 'people' (individuals and organizations) were on the following aspects: experience ("experienced staff", "decades of expertise and experience", "senior professionals"), stability or continuity ("continuity of senior staff (25+ years)"), and qualification ("extremely highly qualified staff", "our advice is based on real world experience, rather than investment theory").Distinguishing features of organizations were mentioned to be: "company culture" ("true independence", "no conflicts of interest", no "proprietary products", "full transparency"), a local focus ("local business with strong local knowledge", "Local approach and speaking the same 'language'"), global coverage ("global footprint", "Global span"), as well as the combination of the two latter features ("Local presence and global reach", "Local expertise with a global network"). The indicated comparative advantages are also related to the service range as a universal provider ("all-in-solution provider", "integrated services", "focus on assets and liabilities"), or to specialization ("specialization", "niche hospital consulting practice", "small & nimble organization", "deep foundation and endowment expertise").

The answers to the criterion philosophy (consulting philosophy) emphasize sustainability ("long term focus", "long term client relationships") and other aspects of the business model ("accepting full fiduciary responsibility", "implementation orientation"). Furthermore, aspects of quality assurance ("capacity constrained – senior consultants are limited to 12 client relationships") and fundamental convictions regarding the consulting process ("strong research focus", "risk awareness", "risk focus") are also listed.

Answers related to the process (consulting process) are: "holistic viewpoint", "exhaustive investable universe" and "thorough due diligence". Further competitive advantages of the consulting process were indicated to be: individuality ("tailor-made", "individual", "customized"), an integrated consulting approach ("integration of research and client service functions", "manager research and client service performed by same team"), and personal aspects ("senior consultants at process"). Frequently, the technological competence of proprietary IT-based systems such as databases and modeling applications were mentioned ("innovative use of technology", "technological infrastructure (data warehouse)", "proprietary technology", "our award winning analytics platform", "proprietary risk enterprise modeling", "unique database structure", "our patent-protected business methodology").

Very few answers were given to the criterion performance (value-added by consulting performance). Even if this criterion is only relevant for the question concerning competitive advantages through the process of consulting, the number is conspicuous, for only two answers were given ("providing alpha", "long term track record"). This is a confirmation of the statements and conclusions in our theoretical section regarding the limited interest for value-added through consulting from the perspective of investment consultants. It is apparent that – in the self-perception– this criterion is not considered a distinguishing feature, and that, therefore, no significance is attributed to it.

Likewise, very few answers were given regarding the product, which is plausible given the individuality and solution-oriented nature of investment consulting services. Mostly, the answers were related to alternative forms of investment ("long and deep alternative investment experience", "strong experience in alternatives, mainly infrastructure and direct property", "new investment opportunities that may lie outside the usual investment universe (e.g. PFI, social housing)").

Very little information was given on the criterion pricing (compensation models). In one case, pricing is a significant distinguishing feature of the business model, because – contrary to common practice - the asset manager is assuming the cost of manager selection ("free for the investor: success fee paid by the winning manager"). In the two other cases, the price level ("low fees") or the structure of the fees ("performance based fee structure") are listed as competitive advantages.

For the analysis of compensation models – which are a substantial part of business models – the variants offered by investment consultants were compared with the preferred demands by institutional investors using six items.

It is apparent that the variant 'flat retainer' with 77.8 % in the Anglo-Saxon regions and with 86.4 % in the Americas, is clearly dominant in the field. The demand shows the same picture in both regions with 61.5 % and 72.7 % of all responses. Due to the relatively high number of participants from these regions, this domination is reflected in the worldwide perspective with 67.8 % for supply, and with 52.6 % for demand. In the non-Anglo-Saxon regions and in EMEA, the most important non-Anglo-Saxon regions, the 'flat retainer' fee variant is with 52.2 resp. 52.9 % in second place in the supply, and with 48.0 % resp. 43.5 % second resp. third place in the demand categories.

	Worldwide				Anglo-Saxon Influenced				Non-Anglo-Saxon Influenced			
	Investment Consultants (n: 59)		Institutional Investors (n: 38)		Investment Consultants (n: 36)		Institutional Investors (n: 13)		Investment Consultants (n: 23)		Institutional Investors (n: 25)	
	Rg	%	Rg	%	Rg	%	Rg	%	Rg	%	Rg	%
Flat retainer	**1**	**67,8**	**1**	**52,6**	**1**	**77,8**	**1**	**61,5**	**2**	**52,2**	**2**	**48,0**
Asset-based	**3**	**42,4**	4	26,3	**2**	**50,0**	4	15,4	4	30,4	**3**	**32,0**
Project-based	**2**	**49,2**	**2**	**42,1**	**3**	**44,4**	**3**	**23,1**	**1**	**56,5**	**1**	**52,0**
Hourly	4	27,1	5	21,1	4	30,6	**2**	**30,8**	5	21,7	4	16,0
Soft dollar			6	5,3			5	7,7			5	4,0
Investment performance-based	4	27,1	**3**	**31,6**	5	13,9			**3**	**47,8**	**2**	**48,0**

	Americas				EMEA				APAC			
	(n: 22)		(n: 11)		(n: 34)		(n: 23)		(n: 3)		(n: 4)	
Flat retainer	**1**	**86,4**	**1**	**72,7**	**2**	**52,9**	**3**	**43,5**	**1**	**100,0**	**1**	**50,0**
Asset-based	**2**	**63,6**	4	9,1	4	29,4	4	39,1	**2**	**33,3**		
Project-based	**3**	**45,5**	**2**	**27,3**	**1**	**55,9**	**1**	**52,2**			**2**	**25,0**
Hourly	4	22,7	**3**	**18,2**	4	29,4	5	17,4	**2**	**33,3**	**1**	**50,0**
Soft dollar							6	8,7				
Investment performance-based	5	4,5	4	9,1	**3**	**41,2**	**2**	**47,8**	**2**	**33,3**		

Fig. 5: Comparison of compensation variants.

In the latter regions, the project-based fee model is dominating supply with 56.5 % and 55.9 %, and demand with 52.0 % and 52.2 %.

In the 'asset-based' variant, the large discrepancy between supply and demand is remarkable. In the Anglo-Saxon regions, the values are 50.0 % resp. 15.4 %, and in the Americas 63.6 % resp. 9.1 %. There is no explanation for this phenomenon based on practical experience, which requires in-depth analysis – e.g. through subsequent research. For the worldwide perspective, the chi-square test shows with $p = 0.011$ a very significant (**) correlation, and for the Anglo-Saxon regions with $p < 0.001$ and the Americas with $p = 0.001$ a highly significant (***) correlation.

In all regions, the 'hourly' (time-based compensation) variant plays only a minor role and there are hardly any 'soft dollars' as an indirect form of compensation. This could be expected because this type of compensation is highly controversial due to its lack of transparency and possible conflicts of interest. It is, meanwhile, systematically – and successfully - avoided by adequate corporate governance in all areas.

What is astonishing, however, is the fact that the investment-performance based compensation model is of very little significance in the Anglo-Saxon regions, while it comes in third with 47.8 % and 41.2 % in the non-Anglo-Saxon regions and EMEA for supply, while it is second for demand with 48.0 % and 47.8 %. One might state that unlike many other

innovations, this trend was not induced by the Americas region. Statistics underpin this statement: while for supply the chi-square test shows non significance with p = 0.134 (n.s.) for the differences between the Anglo-Saxon and the non-Anglo-Saxon regions, the comparison between EMEA and the Americas shows high significance (***) with p = 0.001. As for demand, the comparison between EMEA and the Americas with p = 0.004 shows high significance. The correlation between the Anglo-Saxon and the non-Anglo-Saxon regions could not be tested because in the Anglo-Saxon regions there were no answers provided regarding demand.

Except for the 'asset-based' variant, the overall picture of compensation models supplied by investment consultants and demanded by institutional investors is relatively homogeneous.

Manager Selection

Process of Manager Selection

The discussion of the process of manager selection presents an analysis of investment consultants' approaches to manager selection, i.e. which types of manager research are prevailing, and what are their frequencies. The number of asset managers listed per selection stage and the decision-making influences on each selection stage are also presented.

The following table shows the application frequencies of quantitative and qualitative types of manager research by investment consultants.

Applying an equally weighted method in terms of quantity and quality, the distribution is left-skewed with a peak of 47.5 %. The median lies with the item ‘quantitative screening and qualitative due diligence weighted equally'. With a total of 95.0 %, the qualitative aspect has an equally weighted, prevailing or exclusive share of the procedure. This confirms the long-term superiority of this type of manager research, as stated in the theoretical section.

Quantitative screening only	0	0,0%
Mainly quantitative screening	3	5,1%
Quantitative screening and qualitative due diligence weighted equally	28	47,5%
Mainly qualitative due diligence	27	45,8%
Qualitative due diligence only	1	1,7%
Total	**59**	**100,0%**

Fig.6: Types of manager research – frequencies of application.

The number of 'listed' asset managers per selection stage, differentiated into institutional investors and investment consultants, is illustrated in Fig. 7.

Focal points are the selection stage 'total universe' with 47.4 % (institutional investors) resp. 33.9 % (investment consultants) at '< 50' asset managers, at the selection stage 'long list' with 47.4 % (institutional investors) resp. 45.8 % (investment consultants) at '< 10' asset managers, at the selection stage 'short list' with 71.1 % (institutional investors) resp. 74.6 % (investment consultants) at '< 2-5' asset managers, and at the selection stage 'final list' with 47.4 % (institutional investors) at '1-2' resp. with 52.5 % (investment consultants) at '1-3' asset managers. Generally, a relatively symmetrical frequency distribution can be observed between institutional investors and investment consultants. All medians of the responses of institutional investors are in the second largest category. The same is the case for the responses of investment consultants, except for the selection stage ‘final list’, where the median is at the third size category of '1-3' asset managers. Because the question concerned the influence of the other group, opposed tendencies of frequency distribution can be observed in the following comparison of the assessment of institutional investors and investment consultants regarding the level of decision-making influence per selection stage. The opposed frequency distribution is at least applicable for the enlarged margins of the individual selection stages – as Fig. 8 shows.

57.9 % of institutional investors think that at the selection stage 'total universe', investment consultants have an influence that can be characterized as ’high’ (median) or as 'final decision'. For the selection stage 'long list', 47.4 % characterize the influence as 'high' (median), and for the 'short list' 50.0 % of institutional investors think that the influence of investment consultants is only in the 'medium' range (median). For the 'final list', the last selection stage, 36.8 % think that the influence can be characterized as 'medium', while

55.3 % see the influence on decision-making only in the range of 'low' (median).

78.0 % of investment consultants think that at the selection stage 'total universe', institutional investors have an influence that can be characterized as 'low' (median). For the selection stage 'long list', 61.0 % of investment consultants characterize the influence of institutional investors as 'low' (median). For 'short list', the next stage, 35.6 % of investment consultants express the opinion that the influence of institutional investors is 'medium' (median) or 'high'. Regarding the 'final list', 62.7 % of investment consultants think that the institutional investors make the 'final decision' (median). According to the assessments of both surveyed groups, the influence of institutional investors increases with the level of the selection stage.

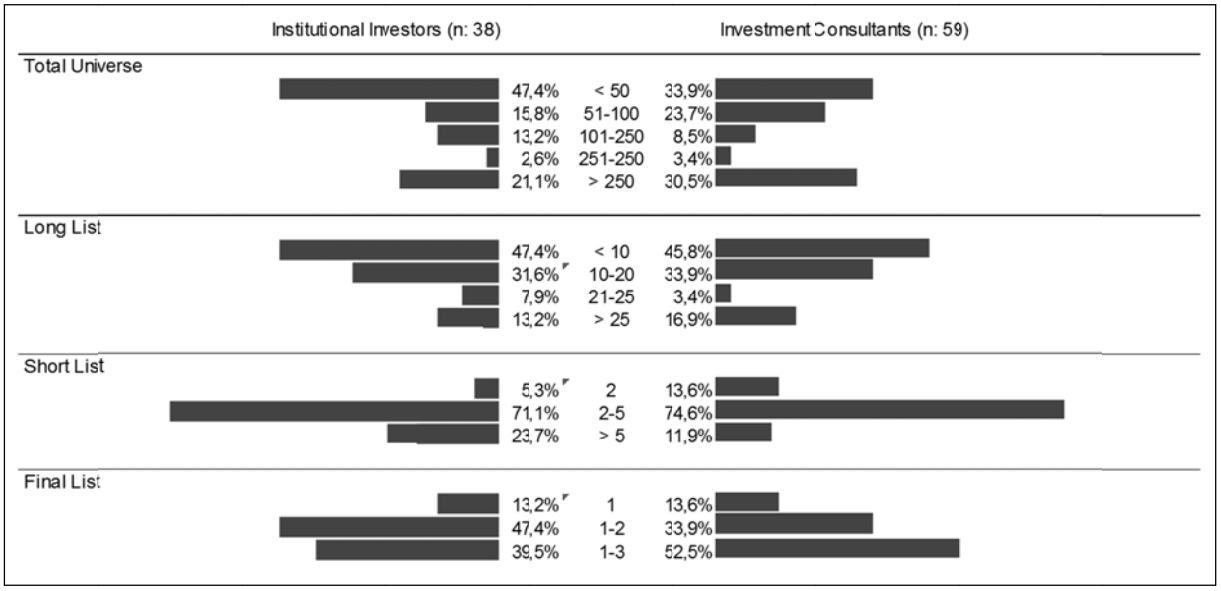


Fig. 7: Number of 'listed' asset managers per selection stage.

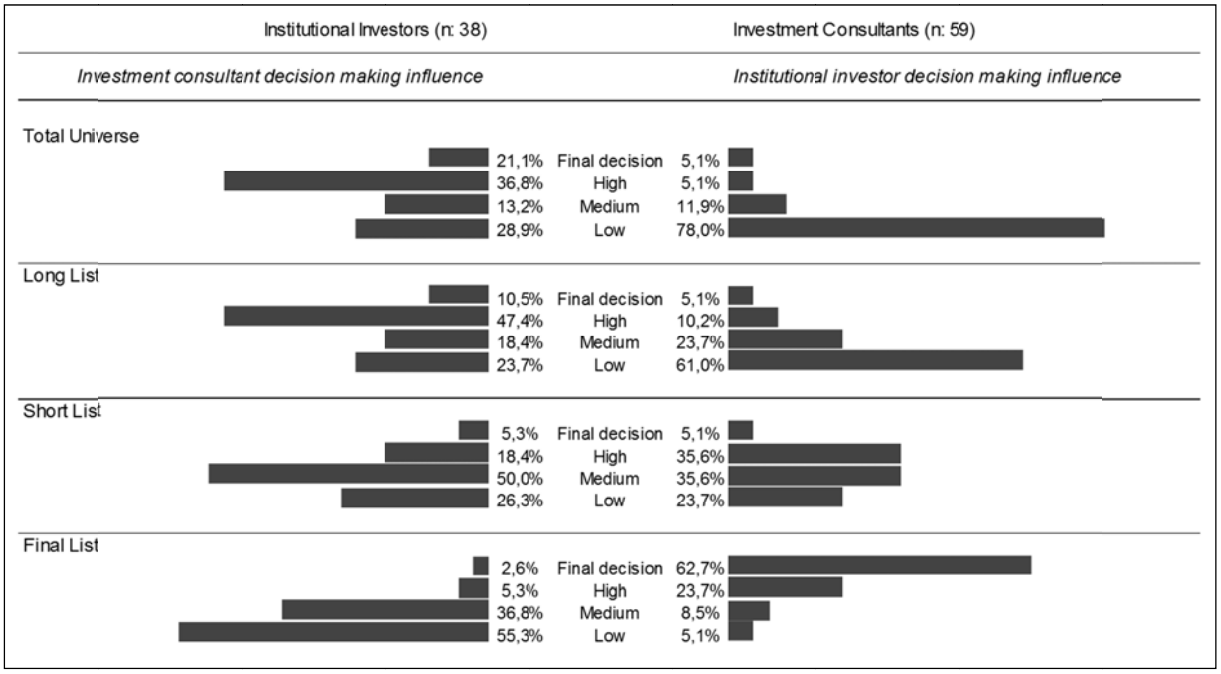
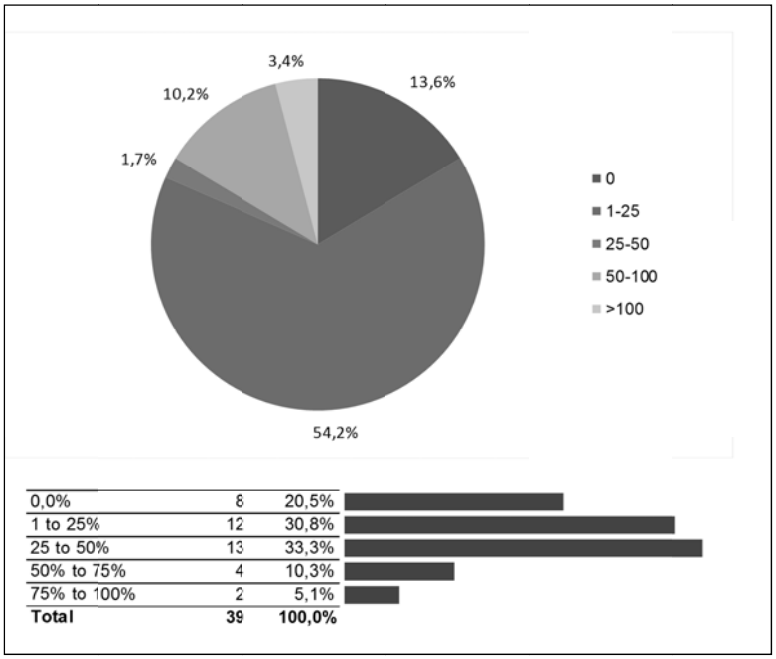


Fig.8: Decision-making influence per selection stage.

Instruments of Manager Selection

The following analysis of the instruments of manager selection shows the manager research instruments used by investment consultants and institutional investors. The number of listed asset managers per instrument is also shown.

To represent absolute and relative human resources capacities in manager research, relevant data was collected and the results are presented in the following figure 9. Unlike the data collected for the typologization of the participants, these figures explicitly represent the segment of investment consultant employees that exclusively deal with manager research.



0,0%	8	20,5%
1 to 25%	12	30,8%
25 to 50%	13	33,3%
50% to 75%	4	10,3%
75% to 100%	2	5,1%
Total	**39**	**100,0%**

Fig.9: Segment of employees working only in manager research.

Only 3.4 % of the responding consultants' companies have more than 100 employees in manager research only (upper graph). 54.2 % of the responding companies indicate a number of 25-50 employees, while 13.6 % have no employees that are active in manager research only.

As for the relation of manager research employees to the total number of employees (lower table), the largest group is found in the categories of '1-25 %' and '25-50 %' (distribution peak 33.3 %) with a total of 64.1 % of all responses.

The distribution of application frequencies of manager selection instruments is shown in Fig. 10. Because of the possibility to give multiple answers, no clear majority could be observed. It is, however, noticeable that investment consultants use all instruments more frequently than institutional investors, that internal databases don't play a significant role for institutional investors, and that for institutional investors, on-site visits are the most frequently used instrument of manager selection.

In addition to the given response options, the following instruments were added by institutional investors: recommendations by other institutional investors (5.2 %), individual case studies (2.6 %), and the request for presenting a fictitious beauty contest (2.6 %). In individual cases, investment consultants also use background checks (3.4 %).

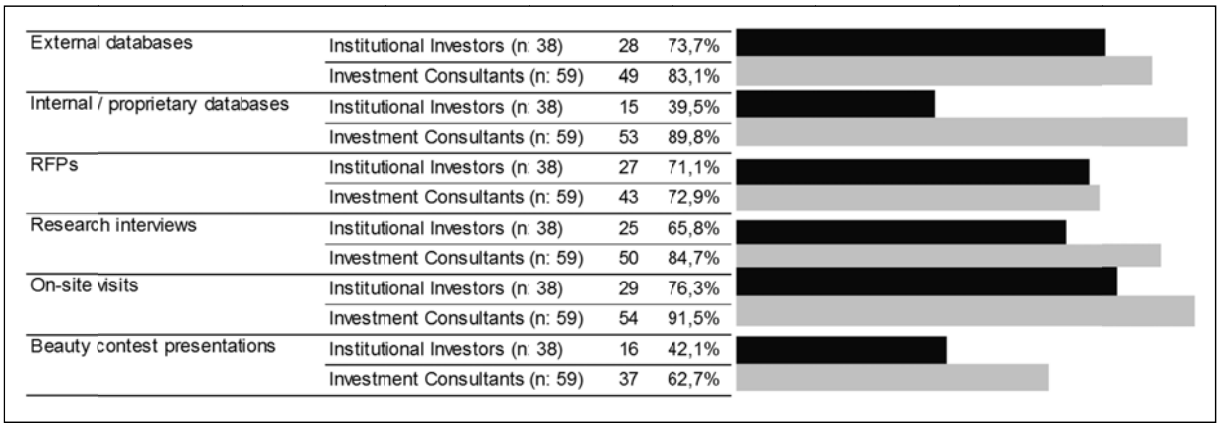


Fig.10: Frequencies of applied instruments in comparison.

The next aspect that will be discussed is the number of asset managers that are listed with specific instruments by investment consultants. After this, the respective selection stages will be analyzed.

As can be noted from the following figure, the frequency distribution is nearly normal for databases with a peak of '1,000-5,000 items' (33.3 %) and a median of 2,000 (1st graph).

The frequency of the following procedural steps or instruments is right-skewed, which is plausible, because the number of considered asset managers decreases during the process. The peak of the 'meeting' instrument is '100-500 items' with 41.2 %. Its median is rapidly reduced to 250 (2nd graph). The peak of the 'on-site visit' instrument is '< 100 items' with 58.8 %. Its median is reduced to 12.5 (3. graph). The peak of the 'beauty contest' instrument is '< 100 items' with 68.6 %. Its median is at 20.0 (4th graph). For the first item (first graph), the Kolmogorow-Smirnov test shows an error probality of $p = 0.07$ (non-normal distribution tendency), for the other items $p \leq 0.001$ (no normal distribution).

How many asset managers have you listed in your database?

			Mean	Med
Not stated	2	3,9%	.	.
< 100	9	17,6%	19,6	20,0
100-1.000	16	31,4%	376,3	400,0
1.000-5.000	17	33,3%	2.256,9	2.000,0
5.000-10.000	3	5,9%	5.666,7	5.000,0
>= 10.000	4	7,8%	21.500,0	18.000,0
Total	**51**	**100,0%**	**3.011,5**	**850,0**

How many asset managers do you meet for a research interview per year on average?

			Mean	Med
Not stated	2	3,9%	.	.
< 100	17	33,3%	22,6	20,0
100-500	21	41,2%	227,1	250,0
500-1.000	5	9,8%	540,0	500,0
1.000-2.500	3	5,9%	1.286,0	1.400,0
> 2.500	3	5,9%	3.666,7	3.500,0
Total	**51**	**100,0%**	**463,5**	**200,0**

How many do you meet for an on-site visit per year on average?

			Mean	Med
Not stated	0	0,0%	.	.
< 100	30	58,8%	21,7	12,5
100-500	15	29,4%	171,9	200,0
500-1.000	2	3,9%	775,0	775,0
1.000-2.500	1	2,0%	1.000,0	1.000,0
> 2.500	3	5,9%	2.733,3	2.500,0
Total	**51**	**100,0%**	**274,1**	**50,0**

How many do you meet for a beauty contest presentation per year on average?

			Mean	Med
Not stated	7	13,7%	.	.
< 100	35	68,6%	21,6	20,0
100-500	7	13,7%	142,9	100,0
500-1.000	1	2,0%	500,0	500,0
1.000-2.500	1	2,0%	1.500,0	1.500,0
> 2.500	0	0,0%	.	.
Total	**51**	**100,0%**	**85,4**	**22,5**

Fig.11: Number of ‘listed' asset managers per instrument.