

Discussion:
"Choosing Pension Fund Investment Consultants"
by Andonov, Bonetti, and Stefanescu

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Why do public pensions choose investment consultants?

- ▶ US public pensions manage around \$5 trillions
- ▶ Consultants are ubiquitous: pensions have on avg. 2.4 consultants
- ▶ Investigated reasons for why pensions pick consultants
 1. Lack of skill
 2. Lack of access
 3. Deflect responsibility
- ▶ Public pension fund data (PPD, CAFR), Preqin, 13F (own equity allocations), ADV (SEC filings of consultants)

Summary of results: Who hires consultants?

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1. Large pensions w/ more alternative assets hire more

Also pensions with more political board representation

Those that want access to alternatives

Summary of results: Why hire which general consultants?

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2a. After abysmal relative performance (includes Time FE)

Suggestive of responsibility shifting

Based on 194 hiring events of which 185 had already a consultant (replacement)

Hiring consultants changes allocation (Tab 7 Panel B - absolute makes sense) - a bit of a mixed message in the paper

Some evidence that consultants improve pensions' performance (from bad to average)

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- 2b. Pensions prefer large consultants with invest. management business arm (raises conflict of interest issue)
& with similar pension clients (size + loc)

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3. To gain access to oversubscribed + more experienced funds

Specialized consultants hired after high target allocations made

No evidence for differential performance

Most of the increase in consultants coming from more specialized consultants that provide access

What do specialized consultants do for pensions?

1. No strong impact on target allocation

- ▶ Begenau-Liang-Siriwardane (2023): general consultants explain a lot of target weight variation, very likely through their causal impact on beliefs

2. Suggests following model of asset allocation

Step 1. General consultant involved in setting target weights

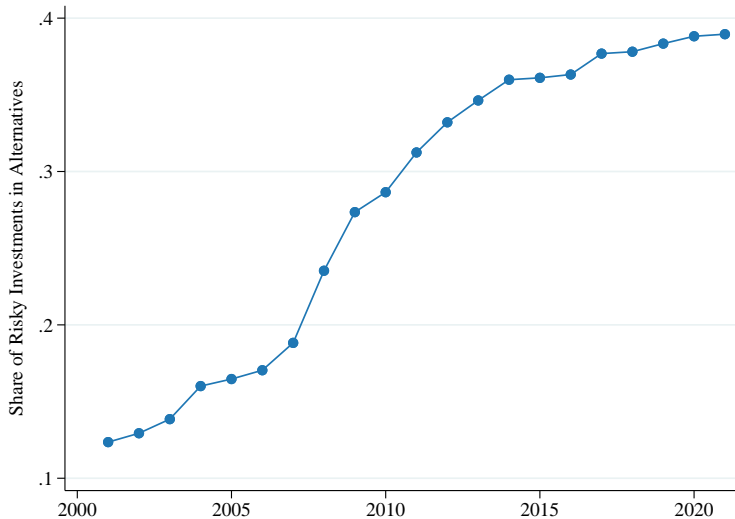
Step 2. Specialized consultants help with manager selection

3. Is any of this a big deal?

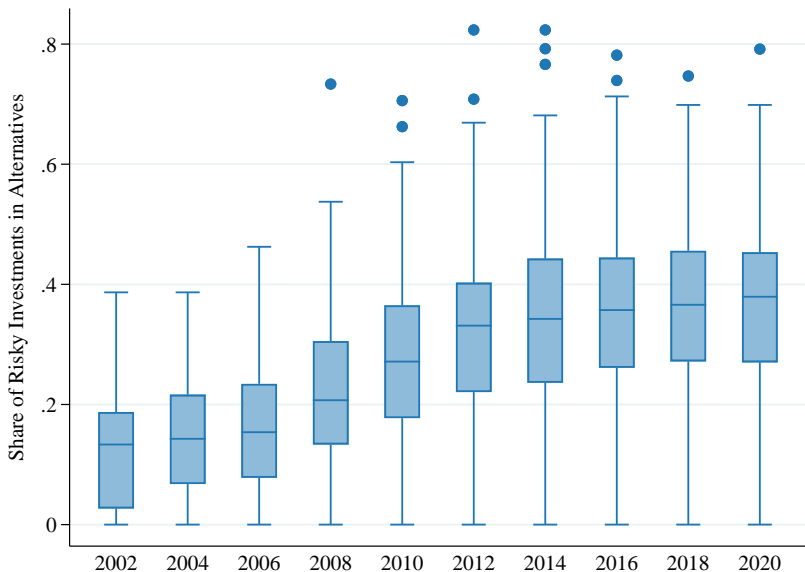
- ▶ Yes! Manager selection has become increasingly important given the growth of alternatives

Agg. public pension increased alternative share

(Begenau-Liang-Siriwardane 2023)

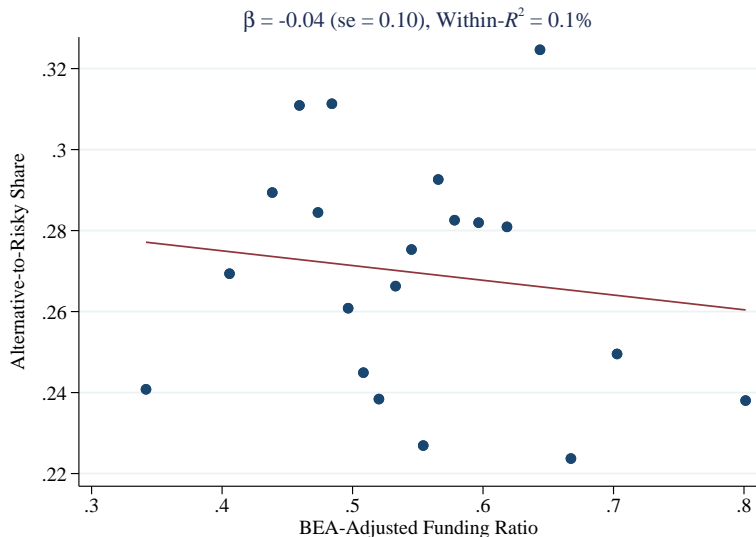


Large XS dispersion in alternative share (Begenau-Liang-Siriwardane 2023)



Alt allocations are not funding related:

Begenau-Liang-Siriwardane-2023: driven by general consultant beliefs



Are specialized consultants any good?

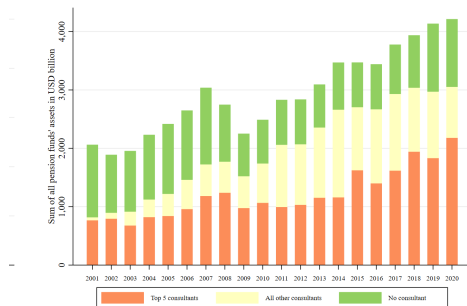
- ▶ Table 10 of the paper suggests no
- ▶ Hard to reject in small sample
- ▶ Suggestions: analyze micro data on portfolio allocations
 - ▶ What does better access mean?
 - ▶ Do they have overlapping or distinct PE portfolios?
- ▶ What drives the specialized consultants? What are their characteristics
 - ▶ Independent of general consultant?
 - ▶ Also asset managers?
 - ▶ Legal issues? What kind?

Given their increased importance, what are consultants incentives?

- ▶ What is the compensation and fee structure?
- ▶ How costly is it to hire consultants for pensions?
- ▶ How do consultants that specialize on pensions compare to those that do not?
- ▶ How different/similar are the suggested/accessed PE portfolios?

Understand higher industry concentration

Private Equity



- ▶ Understand industry dynamics? Which consultants survive? What were their portfolio characteristics
- ▶ How do their portfolio recommendations compare? Does it interact with the asset management arm?

Minor comments

- ▶ Inconsistent messaging around what the effects of consultant turnovers are on allocations. General consultant FE are large.
- ▶ Discuss small sample issue more. Double cluster the hiring tables by pensions and year.
- ▶ Maybe include specification that takes into account that the timing of how consultants affect portfolios may not line up with hiring decisions - allocations are sticky may take more than a year to change.
- ▶ Seems hard to disentangle shifting responsibility story from lack of skill? Access results seem inconsistent with lack of skill - (skill hard to disentangle from no access). Perhaps useful to figure out what drove hiring of consultants after the crisis?

Conclusion

- ▶ Important paper! I learned a lot.
- ▶ Specialized consultants are increasingly important given their role in manager selection. Understanding their role is very important
- ▶ Suggestions to streamline allocation effect discussion and delve deeper into understanding what drives consultants and how that affects pensions