

When to Terminate Your Consultant

By Will Harrell

The relationship between a consultant and a pension fund, endowment, or foundation is based on total trust and a fair trade — the fees paid to a consultant must be clearly justified by the information and advice the pension receives in return. Clear information and straightforward advice are the cornerstones of this relationship; knowing your consultant has the pensioners' best interest in mind is a high priority for trustees.

In many cases these relationships last for years if not decades, making it difficult to know when to think seriously about issuing an RFP and making change. Here are 13 red flags you should be aware of that may indicate that it is time for a change:

1. When promises and/or questions made at the meeting are not followed up on: There are many issues to cover in a quarterly meeting and invariably a question comes up that a consultant is not immediately prepared to answer. All questions/concerns should be fully discussed at or before the next meeting.
2. When your consultant talks more about the broad economy than they do your portfolio: The broad economy matters to some extent, but your consultant is hired to be an expert on your portfolio first. Most of what is discussed should pertain directly to your portfolio.
3. When your consultant is adding alternatives and can't explain exactly why: Have they changed the way they are compensated? Is this a good idea for the plan or a good idea for the consultant? Are they just following the herd?
4. When your consultant can't explain exactly why they are making a recommendation or what exactly you are invested in: Your consultant should have original thoughts and be intimately involved with manager selection and termination; not receive an approved or

When your plan has generally poor performance without explanation: Does your consultant give a full and satisfactory explanation of why performance is poor, or does he/she change the benchmark or peer group when performance is lagging?

5. When you get the feeling you are being told what you want to hear: From time to time there should be thorny discussions if all

issues are being dealt with regularly.

6. When total portfolio rebalancing is infrequent, or based on vague ranges, allowing for some degree of discretion and thus timing and emotional risk on the part of the consultant: Each investment manager/mutual fund should have an exact target allocation weight that is rebalanced on a regular basis.

7. When your consultant is reluctant to make portfolio changes or perform searches: When changes are needed they should be made ASAP regardless of the work required. Consultants should be eager to make improvements.

8. When your consultant's

investment manager termination criteria seem to change quarter to quarter: These criteria should rarely change and be easily explained by the consultant when they do.

9. When your consultant shows you a lot of material produced by the investment managers: Great consultants are energetic, creative, and like to produce and share their own research with their clients, not avoid detailed discussions.

10. When you suspect any conflicts of interest of any sort — new vendor is personal friend, super-low fees, forced selling of products, etc: As a fiduciary-level adviser, a consultant should always put the plan and



the plan and the pensioners first. Golf outings and dinners do not make a great consultant.

11. When you experience regular consultant personnel turnover: It is difficult if not impossible to build


a trusting relationship with people who are constantly leaving the firm for other/better opportunities.

12. When your consultant's business continuation plan is to sell the practice: Your public plan will still be here... will the consultant? How will the new larger firm's investment philosophy differ from your current consultant?

13. When your plan has generally poor performance without explanation: Does your consultant give a full and satisfactory explanation of why performance is poor, or does he/she change the benchmark or peer group when performance is lagging?

Is your consultant demonstrating any of these characteristics? If so a serious discussion among the trustees is in order.

Everyone understands that making changes to a major vendor, such as a consultant, is a big job that takes a lot of time and energy. Making a change always begs the questions: Why didn't you make the changes sooner? How long has this been a problem? These are questions that trustees are going to have to be prepared for when change is made.

This list doesn't cover the entire spectrum of reasons why a plan may look to make a consultant change, but it does provide a good list of the common sense clues that you're no longer getting your money's worth. Making change when necessary is why you were elected. Don't be afraid to ask tough questions and act when they are not being answered. 

Will Harrell is Senior Vice President at Robert Harrell Incorporated, in Austin TX.