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LGIM's MPS investment proposition checklist

LGIM's Asset Allocation team has continuously evolved its fund selection process over the past decade.

Our overriding aim? To create a framework that ensures we are asking key questions of fund managers with whom we are looking to partner on our model portfolio and multi-manager products.

This checklist is intended to provide an outline of the areas that should be considered when evaluating an investment proposition, based on our own framework. It is applicable across all asset classes, (such as equity and bond funds) but is equally relevant when assessing multi-asset solutions.

What do we look for when selecting an investment product?

The overarching question we are looking to answer when selecting a manager is whether we believe they have a competitive advantage that can be sustained over time. To ascertain this, we break down our manager assessment into four components:

1. Organisation;
2. Methodology;
3. Resources; and
4. Results

For each component, we asses a manager's strengths and weaknesses to form an overall view. While these four components will be appropriate for all strategies, the scale of importance of each will deviate depending on asset class.

Organisation

We look to understand a firm's history and its key future strategic priorities . Our goal is to identify stable firms with a strong history within their sector.

- What is the firm's ownership structure?
- How important is the firm's strategy? Is it a strategic focus?
- What is the firm's assets under management (AUM)? How much AUM is managed within a similar philosophy?
- Does the firm have expertise and history within the asset class?
- What is the firm's culture? Does this fit in with our own approach?

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Methodology

We then delve deeper into the nuts and bolts of the strategy. We consider the overall philosophy as well as the process that brings the strategy together.

- Does the manager have a clear investment philosophy?
- How does the manager aim to outperform peers? What do they believe their edge is?
- What is driving the manager's decision-making process?
- Has the philosophy been consistently applied over time?
- Is the process rigorous and repeatable?
- Are there sensible risk controls in place?
- Is there an effective portfolio construction process?

Resources

We consider whether both the firm and the investment team have adequate resources in place to successfully execute their methodology. We also review the product and whether it has the correct framework to achieve its objectives.

- Is there enough breadth and depth of expertise within the team to cover all stated areas? If the mandate is wide, are there any asset class specialists?
- Is there access to resources and expertise outside of the immediate investment team? If so, can that external expertise add value to the team?
- Who are key decision makers? Is the solution team based or driven by an individual? Is there key person risk?
- Does the team manage similar products where there are clear benefits of scale and expertise?
- How has the product been developed over time? Does the team have a history of managing similar products successfully?
- What are the overall fees? How do they compare versus peers?

Results

Finally, we review fund performance and analyse current and historical portfolio allocations. We are not simply chasing top decile performance, we are looking for consistency, both within performance figures and portfolio construction.

- Has the manager demonstrated an ability to deliver strong risk-adjusted returns over a market cycle?
- Has the performance been consistent with the firm's philosophy?
- How has the manager performed versus a benchmark? Has the over/underperformance been consistent or concentrated during one period? Has the strategy taken similar amounts of risk to the benchmark?
- Does the firm have a good track record with its other funds? Are there similar strategies with longer histories?
- Are there any periods of significant underperformance? Can these periods be explained within the firm's methodology?
- How is the portfolio currently positioned? How has that evolved over time? Does this reflect the philosophy? How has the product been developed over time? Does the team have a history of managing similar products successfully?

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

Key risks

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

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