Finding Consensus in Investment Manager Selection: A Guide for Committees

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DeMarche

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Points of Discussion

Abstract

In the face of economic uncertainty, inflation, and shifting market dynamics, investment committees must navigate complex trade-offs when selecting investment managers—balancing capital preservation, growth potential, and institutional goals. A Guide for Committees: Finding Consensus in Investment Manager Selection offers a practical framework for building consensus among stakeholders with diverse risk appetites and investment perspectives. The paper emphasizes structured dialogue, shared priority-setting, and the use of objective, strategy-relevant performance metrics to facilitate unified, data-informed decisions. Through a step-by-step approach—encouraging diverse perspectives, identifying common ground, and defining investment priorities before manager evaluation—committees can avoid decision paralysis and make choices that align with long-term financial objectives. A case study on emerging markets manager selection for a defined contribution plan illustrates how tools such as upside/downside capture and information ratio can help technical and non-technical stakeholders find agreement. Ultimately, the guide underscores that consensus is not a one-time outcome but an ongoing process rooted in collaboration, adaptability, and strategic clarity.

Building Consensus & Finding Compromise

Investment committees face a fundamental decision when selecting active managers: should they prioritize capital preservation, maximize upside potential, or seek a balanced approach? In today's volatile markets, characterized by economic uncertainty, inflationary pressures, shifting interest rates, and geopolitical risk, this decision requires a disciplined and strategic approach. Given the diversity of risk appetites among committee members, reaching consensus is paramount to constructing a sustainable, long-term investment strategy. Achieving this consensus necessitates structured discussions, data-driven analysis, and a clear understanding of the trade-offs between risk and return and the perspective of the investment's role in the portfolio. To navigate these challenges effectively, committees must foster open dialogue, ensuring that differing perspectives are acknowledged and integrated into a unified strategy. DeMarche believes that the following steps facilitate this process:

Step 1: Encourage Diverse Perspectives

Committees are comprised of individuals with different experiences, varying risk tolerances, investment philosophies, and institutional priorities. Creating a structured forum for discussion—such as through risk tolerance assessments or strategic planning sessions—ensures that all viewpoints are heard and considered. Open conversations about critical concerns, including liquidity constraints, market volatility, regulatory compliance, and economic outlooks, help pinpoint potential areas of contention early in the decision-making process. By fostering an environment where different perspectives can be expressed and analyzed, committees lay the groundwork for mutual understanding and cohesive decision-making.

Step 2: Find Common Ground & Compromise

Once differing perspectives are acknowledged, the next step is to align on shared priorities. Establishing core objectives—such as balancing growth with capital preservation—provides a foundation for decision-making. A tiered investment approach can accommodate diverse risk tolerance by maintaining a conservative core allocation while incorporating higher-risk satellite investments. Furthermore, employing a dynamic asset allocation strategy enables committees to adjust risk exposure as market conditions evolve, ensuring long-term adaptability and alignment with institutional goals. With a structured approach to building consensus, committees can advance with a clear framework for evaluating investment priorities. The next step involves understanding different investor profiles and how key performance metrics inform, but do not dictate manager selection.

Define Investment Priorities Before Evaluating Managers

Every institution has a distinct risk tolerance and financial objectives. Some prioritize capital preservation during downturns, while others aim to maximize long-term returns, while tolerating downside disruptions to a degree. The key to a robust investment strategy lies in reconciling these competing priorities while fostering agreement among committee members. Before evaluating managers, committees must first align on their organization's primary objectives. Additionally, committees must consider the investment time horizon: short-term funds require liquidity and low volatility, while long-term funds benefit from strategic consistency and growth potential.

Below is an outline of common investor profiles and their key focus areas:

Institutional Risk Perspective	Primary Goal	Key Metrics	Liquidity Timeframe
Conservative	Capital Preservation	Minimal Downside Capture, Minimal Volatility	Shorter
Aggressive	Maximize Returns	High Upside Capture, High Growth	Longer
Moderate	Moderate Growth	Balanced Upside/Downside Capture	Mid Term
Income-Focused	Steady Income	Higher Yield capture, Minimal Drawdown, Moderate volatility	Mid Term

Understanding the role of the investment within the overall portfolio is a key objective. Is the investment part of a set of core options in a defined contribution plan or a satellite enhancement of a perpetual endowment fund? The investment's role helps to inform committee members when considering risk and return requirements.

Matching Metrics to Strategy: Evaluate Managers through the Right Lens

Once investment priorities are aligned, committees can objectively evaluate managers using metrics that directly reflect these goals, reducing subjective bias in decision-making. To better understand the practical application of these metrics and thei role in facilitating alignment across diverse decision-makers, we present the following case.

Case Study: EM Manager Selection for a Defined Contribution Plan

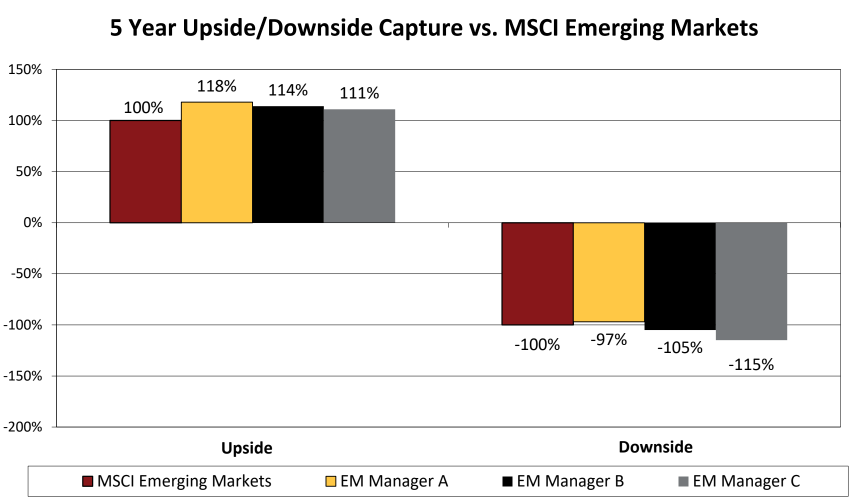

Figure 1

During an Emerging Markets Equity manager search for a defined contribution plan, DeMarche helped a client navigate multiple high-quality candidates. Emerging Markets, by nature, exhibit high volatility, due to both currency and stock specific risks, and are impacted by strong regional and political dependencies — which can magnify both gains and losses. This reality made it critical to evaluate not only return potential, but also how a manager performs in up and down markets, and whether returns are being achieved efficiently.

In committee discussions, the upside/downside capture metrics provided a straightforward visual to compare how different managers navigated varying market conditions — helping both technical and non-technical stakeholders align around the strategy's strengths. Among the finalists, Manager A demonstrated strong participation in rising markets (upside capture of 118%) while offering reasonable downside protection (97% downside capture), as shown in Figure 1.

Risk Ratio Comparison vs. MSCI Emerging Markets

Three Year Statistics	Alpha	Beta	Active Premium	Tracking Error	Information Ratio	Sharpe Ratio
EM Manager A	8.75	1.16	6.86	5.30	1.30	0.03
EM Manager B	-1.29	1.07	-1.83	2.91	-0.63	-0.27
EM Manager C	-3.68	1.08	-4.40	6.47	-0.68	-0.32

Five Year Statistics	Alpha	Beta	Active Premium	Tracking Error	Information Ratio	Sharpe Ratio
EM Manager A	3.06	1.00	2.92	5.04	0.58	0.16
EM Manager B	0.44	1.04	0.41	2.83	0.14	0.10
EM Manager C	-2.11	1.12	-2.47	6.05	-0.41	0.05

Figure 2

Moreover, the metrics in Figure 2 further reinforce the strength of Manager A's approach. The Information Ratio (IR) of 0.58 suggests that the strategy has efficiently generated excess return relative to risk. In general, an IR above 0.5 is considered compelling, particularly in volatile markets like Emerging Markets, where generating consistent alpha is challenging. The alpha of 3.06% indicates that the manager has delivered meaningful outperformance beyond what would be expected given their exposure to market risk. Together, these two metrics show that Manager A is not only producing excess returns but doing so efficiently and with skill, rather than by simply taking on more risk. For plan sponsors seeking to balance growth with discipline, these characteristics make the strategy especially compelling.

While the ultimate decision considered multiple qualitative factors — including philosophy, team stability, and operational fit — these metrics helped focus the discussion and provided a common reference point for all stakeholders. In environments where perspectives differ, objective, strategy-relevant metrics serve as a practical lens to build consensus and make confident, data-driven decisions.

Consensus Is a Process, Not an Outcome

Investment committees play a critical role in shaping long-term financial strategies, and their ability to find consensus in manager selection can significantly impact institutional success. In a rapidly evolving market environment, the choice between capital preservation and maximizing upside is not binary, but rather a spectrum of trade-offs that must be carefully navigated. By leveraging historical data, risk metrics, and asset allocation models, committees can better understand the implications of their decisions and craft strategies that align with institutional goals.

A balanced approach is often the most prudent course, as it enables institutions to mitigate downside risks while capitalizing on growth opportunities.

Key Success Factors:

- Encourage diverse perspectives
- Identify shared priorities
- Adopt dynamic allocation strategies

The DeMarche approach emphasizes rigorous research, client engagement, and tailored asset allocation to help institutions achieve their investment objectives. By maintaining an adaptive strategy that evolves with market conditions, committees can ensure their portfolios remain aligned with long-term financial goals while effectively managing risk. Ultimately, thoughtful collaboration and informed decision-making will position investment committees for sustained success in an unpredictable financial landscape.

Put Research To Work

with the DeMarche Team

Peg VanWagoner

Senior Consultant

(913) 384-4994

Hannah Jiang

Associate, Investment Consulting

(913) 384-4994

Sources Utilized:

- *DeMarche Database*
- *Morningstar*