



It is time to move on to Call for Tender 3.0

As all those who manage money on other people's behalf know from experience, they face a risk and the suspicion that arises from it. The risk is that of not managing the assets acquired with the money entrusted to them by their customers or subscribers in the best interest of said customers and subscribers. This issue is far from new as can be seen from the Bible which invokes the responsibility of the steward many times.

The issue takes on another dimension when the agent that has been given the mandate to manage money on another's behalf has recourse to subcontractors. This risk, sometimes called agent risk, is particularly high when the amounts involved are substantial as in the case of pension funds. We have seen a number of pension fund managers in the United States end up in prison for having clearly favored some asset managers. Public calls for tender are the preferred means of reducing this risk. These consist of requesting the largest possible number of suppliers to make proposals that respond to a clearly stated request with precisely defined and objective assessment criteria. This is obviously rather restrictive and no agent that has recourse to a call for tender will accept to have their hands totally tied by using a single criterion or excluding all criteria that contain a subjective element.

When the assessment criteria are simple and particularly when price plays a very important role, the matter is relatively simple. If we want to buy cars for an institution or a company we are going to use a set of criteria, which may contain numerous criteria but which will all converge towards an assessment of the quality of the service offered (reliability, ease of use, etc.). When a pension fund intends to use a call for tender to select an asset manager who will be asked to implement an innovative management strategy, it will encounter a number of difficulties that technology can help to overcome by promoting what can be termed 'call for tender 3.0'.

Currently, a sizeable pension fund (i.e. more than €10 billion under management) often receives several dozen responses to one call for tender. If it is a public pension fund, it must comply with the French Public Procurement Code. In particular, this means that it must scrupulously ensure that all proposals receive exactly the same treatment during the

assessment process even when some of them manifest little or no possibility of being selected.

Examining these numerous proposals consumes a lot of time and energy even though by definition there can only be a “retrospective” assessment of the quality of the proposals. Hearings of the various asset managers can help to some extent to fine-tune comparison of the different proposals but this is a difficult exercise particularly when the pension fund must adhere strictly to the principle of equal treatment. Moreover, however many precautions are taken with regard to the vocabulary used, particularly the famous disclaimer “past performance is no indication of future performance”, the fund is going to select an investment team and require it to manage its assets according to specific criteria based on past performance of management responding to criteria that in most cases have little to do with those retained in the call for tender.

It is at this stage that technology can help. Thanks to the Internet, it is now possible to organize platforms where asset managers can come and demonstrate their skills by managing notional mandates according to criteria defined by the client as in the framework of a call for tender. Using such a platform has numerous advantages:

- First of all, and this is one of the benefits of using the Internet, any asset manager no matter where they are located can present their proposed management (even though it is obvious that unless a mandate is truly global, the managers with a strong presence in the geographic zone covered by the mandate will have an advantage).
- By defining the assessment criteria for the notional mandate from the start, it is possible to absorb a large number of proposals. Here again, pension fund managers know from experience the work load involved in assessing several dozen proposals.
- Management of a notional mandate over a given period provides a ‘concrete’ view of the investment team’s capacity to deliver a performance that meets the client’s objectives and on which its choice of evaluation criteria is based.
- Reporting by the various asset managers participating in the virtual call for tender is by definition standardized as the terms are defined by the investment and evaluation criteria set for the notional mandate. A certain number of obligations can be laid down in the call for tender’s technical specifications to facilitate comparison of the proposals. For instance, in the area of ESG or Carbon an obligation to use the data supplied by a given supplier could be set.

It is on the basis of the foregoing that ERAFP is promoting, alongside amLeague and Cedrus AM, the demonstration of management of a carbon-free portfolio. The constraints that the managers must comply with were defined beforehand and each manager therefore knows the basis on which the notional mandate’s performance will be assessed. ERAFP’s aim is to identify the manager(s) that this experiment shows to be most capable of meeting its expectations in ‘real life’ and of managing the assets on the Scheme’s behalf. Another great advantage of this experiment is the visibility for the rest of the market, and particularly for

other investors, of the management approaches implemented in the context of the virtual mandate. Unlike traditional calls for tender where proposals are addressed to a single investor, with this platform any investor can get an idea of the performances of the various approaches and, if the need arises, choose a management approach that meets its own constraints. Thus, an investor seeking to implement a portfolio decarbonisation policy may prefer to minimize the possible tracking error relative to its benchmark whereas another investor might not hesitate to accept a larger tracking error if this enables it to achieve greater decarbonisation immediately.

In sum, it is time to mobilize technology resources and move towards recognition of calls for tender managed through electronic platforms, as in the experiment described above. It is in the interest of investors and of those on whose behalf the funds are managed. It is also in the interest of asset management firms which can present their proposals to the rest of the market when responding to a call for tender.

It is time to give call for tender 3.0 a legal status.

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