KEY FINDINGS

MAKING AND EXECUTING INVESTMENT DECISIONS
- Seventy-six percent of respondents indicated that they are either “somewhat comfortable, but need help” or “very comfortable” making investment decisions. Endowments and foundations are more comfortable making decisions relative to the average respondent.

- The majority of respondents (65%) take less than three months to make a decision on asset allocation or manager changes. However, one-third of respondents take more than three months to make a decision, of which 11% take six months to a year.

- The largest impediments to delays in making decisions have been market volatility (26%) and not enough expertise (20%).

- Twenty-seven percent of respondents believe that they have missed investment opportunities due to the time it takes to make or implement investment decisions, a 6% increase from our 2010 survey. The percentage was higher for defined benefit plans at 31%.

- The majority of the respondents (44%) take about one to three months to execute an asset allocation or manager change. However, 21% take more than three months. These results are similar to responses from our 2010 survey.

- The largest impediments to delays in executing asset allocation/manager changes are insufficient staff (18%) and market volatility (15%).

STAFFING
- About half (51%) of respondents have one or no full-time person managing their investments, and 89% have no plans to change staffing levels in the next year.

- The majority of organizations have four to six people on their investment committee/board. This is especially true for those organizations with under $50 million in assets, as 75% cited having four to six people.

ROLE OF OUTSOURCING
- About one-fifth (21%) of organizations have considered outsourcing in the past 12 months, while 13% are considering outsourcing in the next 12 months.

- Forty-one percent of respondents with assets below $500 million are considering outsourcing. Interestingly, 31% of organizations with assets in the $501 million to $1 billion range are also considering outsourcing.
SURVEY DEMOGRAPHICS

Mercer issued a short survey (15 questions) in November of 2011 to assess how organizations are making investment decisions, how they are executing those decisions and their preferences toward investment outsourcing. This survey is a follow up to Mercer’s 2010 Investment Decision-Making Survey and provides some year-over-year trend data.

The charts that follow illustrate some high-level demographic information.

Which of the following best describes your organization?
We received responses from 100 organizations, with a majority of the responses (57%) received from corporations.

What was the size (in US$ millions) of your largest asset pool?
We received responses from a wide range of asset pool sizes. More than one-third of our respondents (36%) indicated their largest asset pool ranged from more than $1 billion to $10 billion, and 27% indicated a range of $51 million to $250 million as of June 30, 2011.
**What does your asset pool represent?**

The most common asset pools represented are defined contribution plans (44%) and defined benefit plans (26%).

- Defined benefit plan, 26%
- Defined contribution plan, 44%
- Endowment, 14%
- Foundation, 1%
- Operating assets, 10%
- Other, 5%
MAKING DECISIONS

How comfortable is your committee/board in making investment decisions on behalf of your portfolio? (“Comfortable” is defined as having sufficient expertise and ability to fully understand the implications of decisions.)

About three-quarters (76%) of respondents indicated that they are either “somewhat comfortable, but need help” or “very comfortable” making investment decisions. This is consistent with the results from our 2010 survey. The number of respondents who responded “very comfortable” slightly decreased compared with 2010. Approximately one-fifth (21%) of respondents are somewhat uncomfortable in making investment decisions and rely on external advice. This represents a slight increase from the previous year.

When the results are shown by asset size, respondents with larger asset pools are more comfortable making decisions. For asset pools above $1 billion, more than 50% of respondents indicated they are “very comfortable” with investment decision making, while only 15% of asset pools between $51 million and $250 million feel the same way.
Within asset pools below $500 million, approximately 30% of pools rely on external expertise. We surmise that respondents with smaller portfolios probably have smaller investment staffs, so it’s not surprising they feel less comfortable making investment decisions versus those with larger asset pools and larger staffs.

When broken down by asset pool, endowments and foundations are the most comfortable with making decisions, with 50% citing that they are very comfortable versus approximately 35% for corporate retirement-based plans.
How often does your committee/board convene to make investment decisions?

Nearly three-quarters (72%) of the respondents convene to make investment decisions quarterly, while 14% indicated that they meet on a semi-annual basis.

In assessing the data by asset size, a larger percentage of respondents with assets below $250 million meet on a semi-annual basis compared with the overall average of 14%. This, again, could be due to smaller asset pools having fewer resources available to assess investments.

Note: Percentages may not total 100 due to rounding.
Do you feel you have missed opportunities in the market due to the time it has taken you to approve and/or implement changes to your strategy or portfolio structure?

More than one-quarter (27%) of respondents feel that they have missed investment opportunities due to the time it takes to make or implement investment decisions. This is a six-point increase from our 2010 investment decision-making survey, when 21% of the sponsors felt they missed opportunities.

While the results are not uniform across asset sizes, it is striking that more than one-third of respondents with assets over $1 billion indicated that they have missed investment opportunities due to the time it takes to implement a decision. Interestingly, only 11% of those respondents with assets between $51 million and $250 million feel they have missed opportunities – much less than larger asset pools. The complexity of investment decisions for larger asset pools probably has an impact on the responses.
Nearly one-third (31%) of defined benefit plans feel that they have missed opportunities. However, only 14% of endowments and foundations share the same concerns.

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How long, on average, does it take the committee/board to make a decision on asset allocation or manager changes?

Thirty-four percent of respondents take about one to three months to make a decision on asset allocation or manager changes, while 31% take less than a month.
The size of the asset pool makes a difference in the time it takes for a committee/board to make a decision. Asset pools greater than $1 billion make decisions more quickly than other respondents, with 49% taking less than a month to make asset allocation/manager decisions. Smaller asset pools are more likely to take longer to make a decision. One-third (33%) of respondents that have assets between $251 million and $500 million state that it takes six months to one year to make a decision – the highest timeframe among all the asset ranges.

Percentage of respondents who cited the following reasons as relevant in leading to delays in making decisions at the committee/board level

Not surprisingly, market volatility was cited as the most relevant factor leading to delays in making decisions at the committee/board level, followed by not enough expertise.
When broken down by asset size, 24% of those with assets above $1 billion cited not enough expertise as the most relevant factor leading to delays in decision making, while 38% of those with assets below $50 million cited market volatility as the leading cause of delays. Interestingly, insufficient staff seems to be most problematic for those with assets between $251 million and $500 million.

When broken down by asset pool, almost half of Endowment and Foundation respondents cited “not enough time for the committee/board to meet” as one of the most relevant reasons leading to delays in decision making.
EXECUTING DECISIONS

How long, on average, does it take to execute an asset allocation or manager change approved by the committee/board?

The majority of the respondents (44%) take about 1–3 months to execute an asset allocation or manager change.

One-third of respondents take less than a month to execute a decision. Compared with our 2010 investment decision-making survey, in which 55% of respondents said it takes one to three months to execute a decision and 21% said it takes less than a month, there seems to be a slight decrease in the time it takes to execute a decision, yet there are still 22% of respondents that take more than three months to execute a change.

Note: Percentages may not total 100 due to rounding.
Our aforementioned results showed those with assets of $251 million to $500 million cite insufficient staff as a leading cause for delays in making decisions. We also found that 42% of these respondents take more than three months to execute a change approved by the committee/board, compared with 22% on average across all respondents.

Percentage of respondents who cited the following reasons as relevant in leading to delays in executing asset allocation or manager changes

Insufficient staff was cited as the most relevant factor leading to delays in executing decisions at the committee/board level. Market volatility was also cited as a significant factor.

Note: Percentages may not total 100 due to rounding.
When broken down by asset size, a much larger percentage of those with assets above $1 billion cited insufficient staff as a relevant factor for delays in executing decisions, while respondents with assets below $50 million cited market volatility as one of the main factors.

![Chart showing percentage by asset size](image)

Please note, respondents were asked to respond to each category separately and, as a result, the total percentage of all the categories does not add up to 100.

When broken down by asset pool, endowments and foundations are more likely to cite market volatility as a factor leading to delays (22%). Interestingly, lack of information was not even cited as a factor at all for endowments and foundations. For defined benefit plans, insufficient staff again is a leading factor, as cited by 19% of respondents.

![Chart showing percentage by asset pool](image)

Please note, respondents were asked to respond to each category separately and, as a result, the total percentage of all the categories does not add up to 100.
How many people are on your committee/board?

The majority of organizations have four to six people on their committee/board. This is especially true for those organizations with under $50 million in assets, as 75% cited having four to six people.
**How many full-time employees do you have on staff to manage the investments?**

Fifty-one percent of organizations have one or no employees on staff to manage investments, while another 42% have up to five employees who fill this role. Not surprisingly, when broken down by asset size, the majority of those with assets under $500 million have one or no employees. The majority of those with assets over $500 million have up to five employees to manage investments.

For those with assets between $251 million and $500 million, the portion of respondents having one or no employees increased to 75% from 57% in our 2010 survey. Similarly, for those with less than $250 million in assets, more than 80% reported having one or no employees, compared with 70% in 2010.
When broken down by asset pool, more than half of defined contribution plans cited having one or no employees. Defined benefit plans and 50% of endowments and foundations cited having up to five employees.

If you have plans to change your investment staffing levels in the next 12 months, are you:

- Reducing investment staff, 2%
- Not applicable, no plans to change staff levels, 89%
- Hiring more staff, 9%

- 0–1 employee
- 1–5 employees
- 5–10 employees
- > 10 employees
When broken down by asset size, respondents with assets above $1 billion are more likely to make changes to their investment staffing level, with 15% indicating that they will hire more staff and another 5% indicating that they will reduce staff.
OUTSOURCING DECISIONS

Have you considered outsourcing your investment decision-making process in the past 12 months?

About one-fifth (21%) of organizations have considered outsourcing in the past 12 months. This is a slight decrease from the 2010 survey, when 27% of respondents indicated that they had considered outsourcing in the past 12 months.

When broken down by asset size, organizations with smaller asset bases are more likely to have considered outsourcing, with the greatest percentage in the asset range of $501 million to $1 billion (31%).
Are you considering outsourcing your investment decision-making process in the next 12 months?

Just 13% of organizations stated that they are considering outsourcing their investment decision-making process in the next 12 months. This is very similar to the percentage from the last survey, in which 15% had said they would consider outsourcing in the next 12 months.

When broken down by asset size, 41% of respondents with assets below $500 million are considering outsourcing. Interestingly, 31% of organizations with assets in the $501 million to $1 billion range are also considering outsourcing.
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