
BT PHOTO: YEN MENG JIIN

RETIREMENT RETHINK

Rich Nuzum, president of Mercer's wealth business, reckons traditional notions about investment risks and fees – and yes, the idea that people should stop working at a certain age – are ripe for reassessment. BY GENEVIEVE CUA

AT 24, Rich Nuzum was only the second person hired for Mercer's investment consulting business in Japan in 1992. He had just completed a graduate Monbusho Fellowship in international economics in Tokyo University. That in itself was impressive, but it was most likely his ability to speak and understand Japanese that lent an added currency to his credentials. He quickly became the go-to person to explain issues to non-Japanese speaking clients.

"That was immensely interesting. I would get dragged from my office on short notice. One of the senior actuaries would say – what are you doing in the next three hours? In the cab on the way to the meeting, they'd tell me what the meeting was about. My job was to help explain the discussion to non-Japanese speaking senior decision-makers, which means I was in all kinds of client meetings that a 20-something-year-old had no business being in – M&A negotiations, (pension) plan redesign and restructuring, all things where being nearly bilingual was helpful.

"That was a huge opportunity. Normally, in your 20s in consulting, you're at your desk and maybe you see a client a couple of times a month. But I got a lot of client contact in cutting-edge stuff."

Today Mr Nuzum, 50, is president of Mercer's wealth business, a job he took on late last year. Mercer has assets under management of about US$242 billion at end-January, including assets under the outsourced chief investment officer (OCIO) business where Mercer is reportedly the largest player globally. There is also some US$11 trillion in assets under advisory, which includes the use of fund manager research. OCIOs advise large institutions including foundations, endowments and sponsors of defined benefit plans on risk, and may also manage portfolios.

Nearly half of Mr Nuzum's 26 years of investment consulting experience was spent in Asia. In 2001, he became country CEO in Singapore. Mercer is currently the investment consultant for the CPF Investment Scheme.

Front seat view

He has had a front seat view of major trends in investment management, helping to guide institutions' thinking on issues. One of the most pivotal changes of the past decade, he says, is the growing importance of Asia in financial markets. "I backpacked around China as a student in 1992. It's kind of a cliche now, but in Beijing then there were no buildings higher than six storeys. It was not a capitalist economy with the social cohesion of communism. It was a communist economy with a tiny bit of entrepreneurialism at the edges. Many (Asian) economies that were tiny bits of the global economy and capital markets 20 years ago are now as important as what goes on in the US.

"When I went back to the US to get my MBA in 1994, none of my US clients wanted to hear about Japan or Asia. It just wasn't important. Japan had crashed and they didn't care about China. Now colleagues of mine who never set foot in Asia have to talk about Asia in every client meeting. It matters for investments, and that's a big change in our lifetime."

Today, Mercer remains at the forefront of a number of trends, some nascent and others more established. One of these is the challenge of evolving a new definition of retirement, a process that hasn't happened quickly enough in

"One of Mercer's very strong house views is that we need to retire the concept of retirement – or at least the idea of a normal retirement age. The worst thing we can do is to tell people that it's normal to retire at 50 or 60 or 65, or that it's desirable to do that, because we know that when someone retires, their mental and physical health declines more rapidly than if they remained involved in work. They also lose their labour market flexibility and the value of their human capital much more quickly."

rapidly ageing societies such as Singapore. "One of Mercer's very strong house views is that we need to retire the concept of retirement – or at least the idea of a normal retirement age. The worst thing we can do is tell people that it's normal to retire at 50 or 60 or 65, or that it's desirable to do that, because we know that when someone retires, their mental and physical health declines more rapidly than if they remained involved in work. They also lose their labour market flexibility and the value of their human capital much more quickly."

Continuing some form of work would help to cushion an unexpected financial shock or strain, which includes the need to help fund elderly parents' medical needs, for instance. Traditional financial planning looks to a work-free retirement, but Mr Nuzum argues that continuing to work through older ages is an important part of a financial plan. "Your human capital or earning power is typically your most valuable asset. The ultra wealthy are different. For most of us, our earning capacity is large compared to the savings we accumulate.

Skills that improve with age

"If you're in a society where people retire at 60 or 65, five to seven years before that, the employer stops investing in the employee's skills. He stops giving development opportunities and starts worrying about succession and taking them off important accounts, so in the last seven years of their career their value deteriorates... I'm not saying people should work until their 70s but having the flexibility to do that as a society is important, because it improves health and mental health outcomes. Older people have valuable skills, they help economic growth and mentor the younger generation."

Some Mercer staff work into their 70s. "There are skills that decline with age, and those that improve with age. One of the skills that improves with age is the ability to read a room and understand the question behind a question. (Older staff) are better at listening and getting a buy-in from people... If I'm trying to get a manager to agree to a fee, waive an account minimum or agree to a new strategy, who I call in to deal with that investment manager will influence whether I can get the right answer. Our older colleagues are better at that; they have stronger relationships on a more senior level. We have colleagues in their 70s; as long as they want to work and their health permits, we're delighted for them to keep working."

Another significant shift which has evolved through the years is how risk is defined. When Mr Nuzum started his career in the 1990s, risk was defined in statistical terms such as standard deviation. Today, it is defined as "whether you can deliver the outcome you aim for or not". "What matters to a family or individual is not a statistical measure of risk, but can I stomach the volatility of my portfolio so that I can stick with it and maintain confidence in something I don't fully understand."

Pension sponsors have also moved from offering a myriad of choices to participants, which only results in inertia. Today, the preferred mode is a "smart default" portfolio, typically a sensible balanced portfolio defined by its target outcome. "What we see over and over is that it's really very easy for individuals to underperform the market. They chase past performance and systematically on average get it wrong. So they massively underperform the smart default option. I don't think we knew this 28 years ago; we didn't have enough data. But now we have 28 years of defined contribution records. We find in one corner individuals who invested narrowly. And in another, those in smart defaults and their steady rise to prosperity. The first guys chase high-risk investment options when the market is doing well. But they buy in late, get into cash when the market falls, and lose on the rebound. It's amazing how skilful people are at underperforming by chasing recent past performance."

A steady commitment to save and staying invested through crises are critical, particularly as the future expectations of returns ratchet downwards. "You need to stay fully invested, in risk you can tolerate. Are you taking enough risk to meet your long-term goals? If you asked me 20 years ago for the median expected return for stocks, I'd have said 11.2 per cent. Today, I'd say 5.6 per cent. To get a good outcome was a lot easier 20 years ago with valuations where they were. We've had a good eight years, but on a forward basis, we'd get just over half (in returns), so now if you don't take enough risk, you're not going to get enough account balance in retirement."

The hardened rhetoric on tariffs coming out of the United States casts a pall on expected growth, corporate investments and, consequently, investment returns. "In general, populism and anti-globalisation – if they result in a change in policy – that's a stagflationary shock." What companies need, he says, is clarity on policy, but that remains elusive after the Brexit vote and now, with the simmering trade war.

"If you're the CFO of a company in Europe, do you build your plant in the UK or the continent? Do you make that decision at all or wait and see? So instead of building a plant, you buy back shares or pay it out as dividends because you don't know what to do. You don't sit on the capital, you give it back to shareholders.

"If you build the plant, there is employment, growth, sales, and that's good for the economy. For an individual company, a CFO may be right to give back the money as opposed to doing something productive, but when you multiply that across many CFOs, you'll have lower economic growth, lower employment, less investment in technology, less productivity enhancement. So the return to our client on a stock – it may be the right decision for the stock – but if it's across the portfolio, the return is lower. The policy uncertainty is where the damage happens. And we can't get it back. Everyday with that uncertainty, people who could take risk and make productive investment are holding off. We lose a bit of what we could have had in economic growth, which ultimately is the source of investment returns."

Meanwhile, pressure on investment management fees is intense, and he acknowledges that consultants such as Mercer are often blamed for exacerbating the trend. Clients, he says, are "bifurcating" their portfolios – that is, they seek cheap broad market exposure through passive or so-called smart beta funds, investing in very low-cost exchange traded funds (ETFs). And the value-add above market is obtained through judicious investments in high-risk active managers or alternative assets including hedge funds.

"It's a barbell exposure. You get your core exposures cheaply and if you pay for active management, you want it really active – not a 100-stock portfolio but maybe 30 stocks, and you'd want six such managers to get diversification. The implication for the manager business is if you can beat the market, then develop a higher tracking error, higher active share and higher risk variance and market that. If clients believe you can beat the market, they'll pay for it. But they're not going to pay for the middle-of-the-road part. The industry is bifurcating."

Investment consultants, he says, are often seen as the "bad guy" in fee negotiations. "A consultant would probably have six managers that they think are good. If one manager's fee is 20 per cent lower than the others, it will push money towards that manager. As managers ratchet down their fees, the consultant makes sure the market level also ratchets down."

He recalls that this happened acutely in the custom liability-driven fixed income market in the US where the fee level plunged from 15 to 20 basis points to six basis points over two years. "We didn't go out to say that the market clearing rate for this should be six basis points instead of 20, but as the rate came down, we used cheaper managers for clients, the ones we thought were high quality. And we told the others – you're losing business because of fees. And so we played the intermediary role."

Bargaining power

The OCIO business further intensifies the pressure. As OCIO, Mercer may aggregate clients into a single account which lends a strong bargaining power. Managers also benefit with efficiency and a lower cost to service a single aggregated account. "We're a sophisticated buyer. If the manager behaves in line with their strategy, we're not going to fire them. But if they try to charge us 50 basis points instead of 30, there are other people we like just about as much. For 20 basis points, we'll move. It's not emotional. We're passionate about getting the right outcome for clients, which is alpha net of fees."

Even with margins under immense pressure, no one should shed a tear for the fund management industry, he says. "I think we're a long way from the bottom. The industry is still hugely profitable, partly because markets have been appreciating and new assets have been funding faster than fees are coming down. There are times in the industry when long-only core active management was a happier place, with net positive job growth... But I think the bottom is still highly profitable. Fee pressure is pronounced, and asset managers have consolidated, but they're still profitable.

"If you have a good track record, good capability, you're going to make a lot of money as a firm and a human being. You'll make more than a good doctor makes, and a lot more than teachers. No one should shed a tear."

gen@sph.com.sg
@GenCuaBT

RICH NUZUM
President, Wealth, Mercer

1990: BA with Honours in Mathematical Sciences and Mathematical Economic Analysis, Rice University

1990-1992: Graduate Fellowship at Tokyo University

1992: Joined Mercer in Tokyo

1993: Moved to Chicago – Investment Consultant by day; University of Chicago MBA student by night

1996: Graduated MBA; Returned to Tokyo. Asia Regional Business Leader, Mercer Investment Consulting

1999: Won work for CPF in Singapore

2001: Country CEO, Singapore

2004: Market Leader, South-east Asia (Mercer-wide)

2005: Americas Investment Consulting Leader

2008: Global President, Mercer Investment Management

2012: North America Business Leader, Mercer Investments

2017: Wealth Leader, Growth Markets Region

Since 2017 : President, Mercer Wealth Business