MCG Journal

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MCG Survey Results Shows Lower Return and Higher Risk Expectations for Most Asset Classes

A survey of leading investment managers by the Marco Consulting Group ("MCG") shows that for the next 10 years the managers project lower returns and higher risk for almost all asset classes than they did in a similar survey in 2000.

MCG is the largest investment consultant to Taft-Hartley benefit plans in the U.S. MCG's 170 consulting relationships have, in the aggregate, an asset valuation of approximately $80 billion.

MCG sent over one hundred and fifty surveys to managers specializing in a range of asset classes, requesting projected returns and risk (standard deviation) for the next 10+ years for 14 different asset classes, along with the correlation between those asset classes. Managers were requested to disregard the survey if their organization does not generate these kinds of projections, and partial responses were accepted in view of the investment managers' differences in focus and specialization. MCG reviewed the responses received and determined average risk, return and correlation numbers for each asset class.

Projected returns for U.S. Large Cap Equity fell from 10.5% to 8.8%, while projected risk rose from 14.6% to 15.4%. U.S. Core Fixed income return projections also declined, from 6.8% to 5.7%, while expected risk climbed from 4.9% to 5.7%. In fact, with the exception of Unhedged International Fixed Income, projected returns fell for every asset class when compared to MCG's 2000 projections, and risk increased. The decline in return was at least 40 bp (Hedged International Fixed Income) and as much as 520 bp for Private Equity, which also saw its risk climb from 18.4% to 23.7%.

MCG President Ian Jones said, "In combination with the market environment of the last few years, these projections reinforce the importance that a fund's asset allocation will play in the coming years. Trustees have been revisiting their benefit fund's investment policy and carefully reviewing the selected asset classes to assess how they might contribute to the benefit fund in terms of return and risk. Only in this way are trustees able to craft an investment structure with the greatest likelihood of meeting the benefit fund's future obligations."

This chart details the potential total fund returns that would be generated using both the 2000 and 2002 survey results for a benefit fund that is allocated to both large and small cap equities, fixed income and real estate equity.

Nominal Return Analysis

	% ALLOCATION		2000 RETURN ASSUMPTION		CONTRIBUTION TO TOTAL RETURN
Large Cap Equities	40%	X	10.50%	=	4.20%
Small Cap Equities	10%	X	11.80%	=	1.18%
Fixed Income	40%	X	6.80%	=	2.72%
Real Estate Equity	10%	X	10.50%	=	1.05%
TOTAL					9.15%

	% ALLOCATION		2002 RETURN ASSUMPTION		CONTRIBUTION TO TOTAL RETURN
Large Cap Equities	40%	X	8.80%	=	3.52%
Small Cap Equities	10%	X	10.20%	=	1.02%
Fixed Income	40%	X	5.70%	=	2.28%
Real Estate Equity	10%	X	9.40%	=	0.94%
TOTAL					7.76%

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MCG 2003 Client Conference
January 24-29th
The Westin Diplomat Resort and Spa
Hollywood, FL

	2000 Survey Results		2002 Survey Results	
Asset Class	Return	Risk	Return	Risk
Equity - Large Cap	10.5	14.6	8.8	15.4
Equity - Mid Cap	11.0	16.2	9.2	17.0
Equity - Small	11.8	20.0	10.2	20.1
Equity - International	10.7	17.1	9.4	16.8
Fixed Income - Core	6.8	4.9	5.7	5.7
Fixed Income - High Yield	10.2	7.5	7.7	8.6
Stable Value	6.0	0.9	5.5	1.2
Fixed Income - Internationa	5.9	4.5	5.3	4.4
Real Estate Equity	10.5	9.5	9.4	6.6
Private Equity	17.7	18.4	12.5	23.7