OPINION

SELECTION, EVALUATION AND COMMUNICATION CONTRIBUTE TO SUCCESSFUL EXTERNAL MANAGEMENT PROGRAMME

Colombia's central bank has been working successfully with external managers for over 30 years. Here's what it has learnt, writes Andres Cabrales, acting head, international investment department, Banco de la República.

SINCE 1994, Banco de la República, Colombia's central bank, has been successfully running an external management programme. By developing a robust framework and creating strong partnerships that have grown and evolved through time, the main objectives of the programme have been met.

Success is the result of the fact that the private firms that participate in the programme are chosen through a competitive bidding process, are continuously evaluated and receive frequent feedback. Based on the results each administrator obtains, the amount managed might be modified or their participation in the programme may be reviewed. This robust set of processes has been developed over time and continues to evolve in order to strengthen the methodologies and allow the bank to select and keep the best set of managers for the mandate.

One of the main objectives of the programme is to enhance the performance of Colombia's foreign reserves investment portfolio. In this respect, firms chosen to participate in the programme are highly capable in their analyses of financial markets and have a sophisticated infrastructure that can be taken advantage of to define investment strategies. By having a strong set of different managers with varying views, the portfolio has benefited from a number of investment ideas that have provided diversification and positive relative returns.

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Additionally, close interaction with managers generates positive feedback. Allowed asset classes and investment guidelines have changed through time in order to permit relevant strategies that are in line with the risk and return objectives of the mandate. Managers also play an important role in that they may have teams in place that specialise in asset classes that are not managed by internal investment teams. If managers are able to handle new asset classes and relevant strategies are added, more investment opportunities arise and greater diversification benefits can be obtained.

External managers are also key allies in that they provide training and knowledge transfers to the bank's staff and support its research efforts. Not only do managers offer investment feedback and ideas, but they have also been very important partners in providing training and collaborating on projects that include different areas of the investment role, such as analysing risk and attribution tools, generating new risk measurement methodologies, providing scenario analysis for managed portfolios and preparing presentations and meetings on current topics, among others. This has been beneficial in the development of many projects and initiatives and should continue to be an important factor in years to come.

We expect to continue developing the external management programme. Markets will continue to evolve and moments of volatility and uncertainty will occur again. Active management will remain relevant and portfolios will benefit from a diversity of ideas and strategies. Given our experience, we can strongly believe in the programme – built over almost 30 years – while recognising that we will have to continue to be dedicated to it in order to keep reaping the benefits. •