



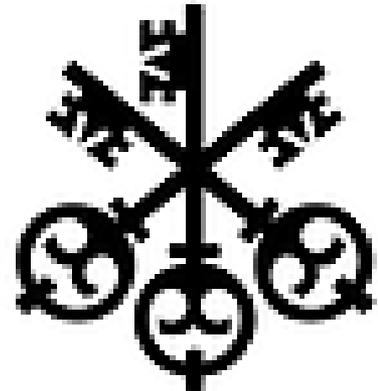
*Pennsylvania Association of Public Employee Retirement Systems*

# 11<sup>th</sup> Annual Forum

## Hiring a Money Manager- the Process

Elaina Spilove, CIMA©

Senior Institutional Consultant



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# Requests for Proposals (RFP's) Should they be used? How to get the most out of them

# Agenda

- Assemble the team
- Develop a timeline
- Create the RFP
- Identify Candidates to Participate & Distribute
- Review & Score
- Interview
- Decide

# Assemble A Team

- Writing the RFP
- Approving the RFP
- Sending the RFP and collecting responses
- Reviewing the RFP
- Communicating results

# Develop a Timeline

- Determine estimated completion dates for key parts of the process
- Establish Q&A period and determine level of interaction for respondents
- Set time limitations
- Distribute written answers to all candidates to maintain level playing field

# Create the RFP

- Reflect your culture
- Keep questions clear & direct
- Provide background information
- Know your biases, statutes, fiscal codes
- Maintain focus
- Sample RFP:
  - [http://www.cfainstitute.org/ethics/topics/Pages/  
model\\_rfp.aspx](http://www.cfainstitute.org/ethics/topics/Pages/model_rfp.aspx)

# Details of the RFP

## Worksheet A

### Sample questions to help you create your RFP

Below are sample questions you may want to consider as you develop your RFP. Add or delete questions as you see appropriate.

#### Firm background

These questions are designed to determine the firm's stability, profitability, culture, and long-term viability.

- Provide your company's name and address, and the primary RFP contact's name, phone number, e-mail address, and fax number.
- Provide a brief history of your firm.
- What is your business philosophy and how do you define and measure success?
- Describe your firm's ownership structure.
- Describe any significant developments affecting the firm in the last five years, such as changes in ownership, restructuring, personnel changes, reorganization, or philosophy. Please note any planned or anticipated changes in the ownership or management of your firm during the next two years.
- Identify the total number of clients by type (corporate plan, public plan, foundation, etc.) and the average length of relationships.
- How many clients has the firm lost or gained in the past five years? Provide reasons for losses.
- Over the past five years, has your organization or any of its affiliates or parent, or any officer or principal been involved in any business litigation or other legal proceedings related to your consulting or investment activities?
- Describe in detail any potential conflicts of interest your firm, affiliates, or parent may have in management of this account and your method of dealing with conflicts of interest.

- Please provide information regarding your internal policies concerning compliance with regulatory and/or legal requirements, code of ethics, and best execution.

#### People

These questions are designed to help determine the team's experience, expertise, turnover, and compensation.

- Provide the names, titles, and biographies of key individuals who would be directly responsible for providing services. Include the year each individual joined the firm and their current responsibilities, experience, education, and professional designations. Detail their roles and the scope of their involvement for this assignment.
- What is the succession plan should any of your key individuals or managers leave the firm?
- How many investment staff have joined or left the firm in the last five years?
- Describe the firm's compensation and incentive program for professionals.

#### Philosophy

These questions are designed to help determine whether the firm's investment philosophy is enduring and well-articulated.

- Describe your investment philosophy in 500 words or less.
- How has your investment philosophy evolved over time?
- How do you expect to add value to the portfolio(s)?

#### Process

These questions are designed to determine whether the firm's process is definable, transparent, and consistent.

- Describe your portfolio construction process.
- What changes have you made to your portfolio construction, product screening and search, and manager selection processes over the last five years?
- Describe your approach to managing risk.
- Describe how the client's investment goals, risk preferences, and spending policy are factored into your process.

#### Portfolio

These questions are designed to disclose policy guidance, benchmark, and reporting capabilities.

- How will you assist our organization in the development of an IPS?
- Describe how benchmarks are chosen or developed and how performance is compared with similar portfolios. Describe your custom benchmark capabilities.
- Describe your firm's portfolio and performance reporting and evaluation services.
- Please provide a sample monthly and quarterly report.
- Are reports available via the website?
- Can you accommodate special reporting needs such as [describe them]?

#### Fees

These questions provide another quantifiable attribute for comparison.

- Provide your fee schedule.
- Have your fees changed over the last five years?
- What services are included with your fees?
- What other services can you provide? What is the cost for those services?
- Explain all fees associated with managing the portfolio.

Use the grid below as a guide:

Type of fee	Fee
Investment advisory	
Investment management	
Commingled funds/ Partnership expense	
Incentive	
Custodial	
Additional travel	
Purchase/Redemption fees or commissions	
Additional (describe)	
Approximate all-in fees	

#### Performance

(Assumes you provide an existing IPS, statement of assets, or some type of guidance.)

These questions are designed to provide the basis of comparison for investment providers' outcomes over various market cycles.

- Given what you know about our organization, please provide an appropriate composite portfolio and performance through the most recent calendar quarter. Include 1-, 3-, 5-, and 10-year annualized performance and calendar year-by-year performance. Also show performance for the following periods: September 30, 2008, through March 31, 2009 (bear market); and March 31, 2009, through December 31, 2010 (recovery). Show performance compared with an appropriate benchmark.
- Explain any outperformance or underperformance greater than 100 basis points compared with the benchmark.
- Does the above information comply with Global Investment Performance Standards (GIPS)?

#### Other

Include sample research produced by your company.

# Identify Candidates

- Consultant recommendations
- Personal referrals
- Online directories
- Number to be considered
- Establish a deadline

# Considerations for Evaluation

## Worksheet C

### Key evaluation considerations

Here are some important attributes, both positive and negative, to consider as you review the candidate firms.

	Positive	Red flags
<b>Firm</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Investment focus</li> <li><input type="checkbox"/> Employee ownership</li> <li><input type="checkbox"/> Clear succession plan</li> <li><input type="checkbox"/> Reinvestment in the firm</li> <li><input type="checkbox"/> Gaining assets/accounts</li> <li><input type="checkbox"/> Diversified client base</li> <li><input type="checkbox"/> Business model aligned with client interests</li> <li><input type="checkbox"/> Fiduciary qualities of prudence, duty of care, and loyalty</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> SEC issues</li> <li><input type="checkbox"/> Focus is on marketing/asset retention versus investing</li> <li><input type="checkbox"/> Lack of employee ownership/ concentrated ownership at top</li> <li><input type="checkbox"/> Problematic outside ownership</li> <li><input type="checkbox"/> Trouble attracting new business or losing current clients</li> <li><input type="checkbox"/> Firm not profitable or experiencing declines in profitability</li> <li><input type="checkbox"/> Lack of fiduciary focus</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Depth and stability of investment team</li> <li><input type="checkbox"/> Credibility</li> <li><input type="checkbox"/> Passion for investing</li> <li><input type="checkbox"/> Compensation tied to client success</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Lack of depth</li> <li><input type="checkbox"/> Unusual level of professional turnover</li> <li><input type="checkbox"/> Questionable ethics</li> <li><input type="checkbox"/> Motivated by wrong things</li> </ul>
<b>Philosophy</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Coherent</li> <li><input type="checkbox"/> Well-articulated</li> <li><input type="checkbox"/> Rooted in research</li> <li><input type="checkbox"/> Rewards commensurate with risk</li> <li><input type="checkbox"/> Enduring, time-tested</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Unclear how portfolio is constructed— where ideas come from; who evaluates ideas</li> <li><input type="checkbox"/> Unclear or inconsistent buy/sell discipline</li> <li><input type="checkbox"/> Unclear or inconsistent valuation discipline</li> <li><input type="checkbox"/> Masking of risk; use of leverage or derivatives to distort risk</li> <li><input type="checkbox"/> Decision-making process has changed</li> </ul>

	Positive	Red flags
<b>Process</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Explainable</li> <li><input type="checkbox"/> Repeatable</li> <li><input type="checkbox"/> Transparent</li> <li><input type="checkbox"/> Disciplined</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Not consistent with philosophy</li> </ul>
<b>Portfolio</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Reflective of philosophy and process</li> <li><input type="checkbox"/> High conviction</li> <li><input type="checkbox"/> Sufficient active risk</li> <li><input type="checkbox"/> Acknowledgement of mistakes</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Not consistent with expectations</li> <li><input type="checkbox"/> Unexpected trend in portfolio characteristics</li> <li><input type="checkbox"/> Style drift</li> </ul>
<b>Fees</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Transparent</li> <li><input type="checkbox"/> Reasonable</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Complicated</li> <li><input type="checkbox"/> Vague</li> <li><input type="checkbox"/> Excessive</li> </ul>
<b>Performance</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Tight tracking (for index fund)</li> <li><input type="checkbox"/> Outperforms benchmark (for active funds) over multiple, rolling, long-term time periods</li> <li><input type="checkbox"/> Performance consistent with the investment provider's approach and prevailing market conditions</li> <li><input type="checkbox"/> Performance in-line with expectations</li> <li><input type="checkbox"/> Credible explanation of performance</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Tracking is not consistent with benchmark (index funds)</li> <li><input type="checkbox"/> Underperforms benchmark over multiple long-term time periods.</li> <li><input type="checkbox"/> Performance inflated/deflated due to influence of a single time period.</li> <li><input type="checkbox"/> Poor long-term performance</li> <li><input type="checkbox"/> Outperformance during periods when the investment provider's approach should have produced lower returns</li> <li><input type="checkbox"/> Performance not consistent with expectations</li> </ul>

# Review and Score

- Allow ample time for review
- Committee meeting for discussion & review
- Utilize assessment matrix (see next slide)

# Scoring the Candidates: A Sample Assessment Matrix

	Weight %	Firm A	Firm B	Firm C	Firm D
Firm					
People					
Philosophy					
Process					
Portfolio					
Fees					
Performance					
Other					
Weighted total	100%				

Comments \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

# Interview

- Schedule in person meetings
- Allow ample time for candidates to present
- Determine if they are a good fit
- Consider site visits

# Decide

- Use assessment matrix
- Decide how to resolve ties
- Discuss the transition process

# Sources of RFP Data

- IMCA
- CFA Institute
- Institute for Private Investors
- Investment Adviser Association
- **YOUR INVESTMENT CONSULTANT**

# Sources of Manager Data

Examples :

❖ *Lipper*

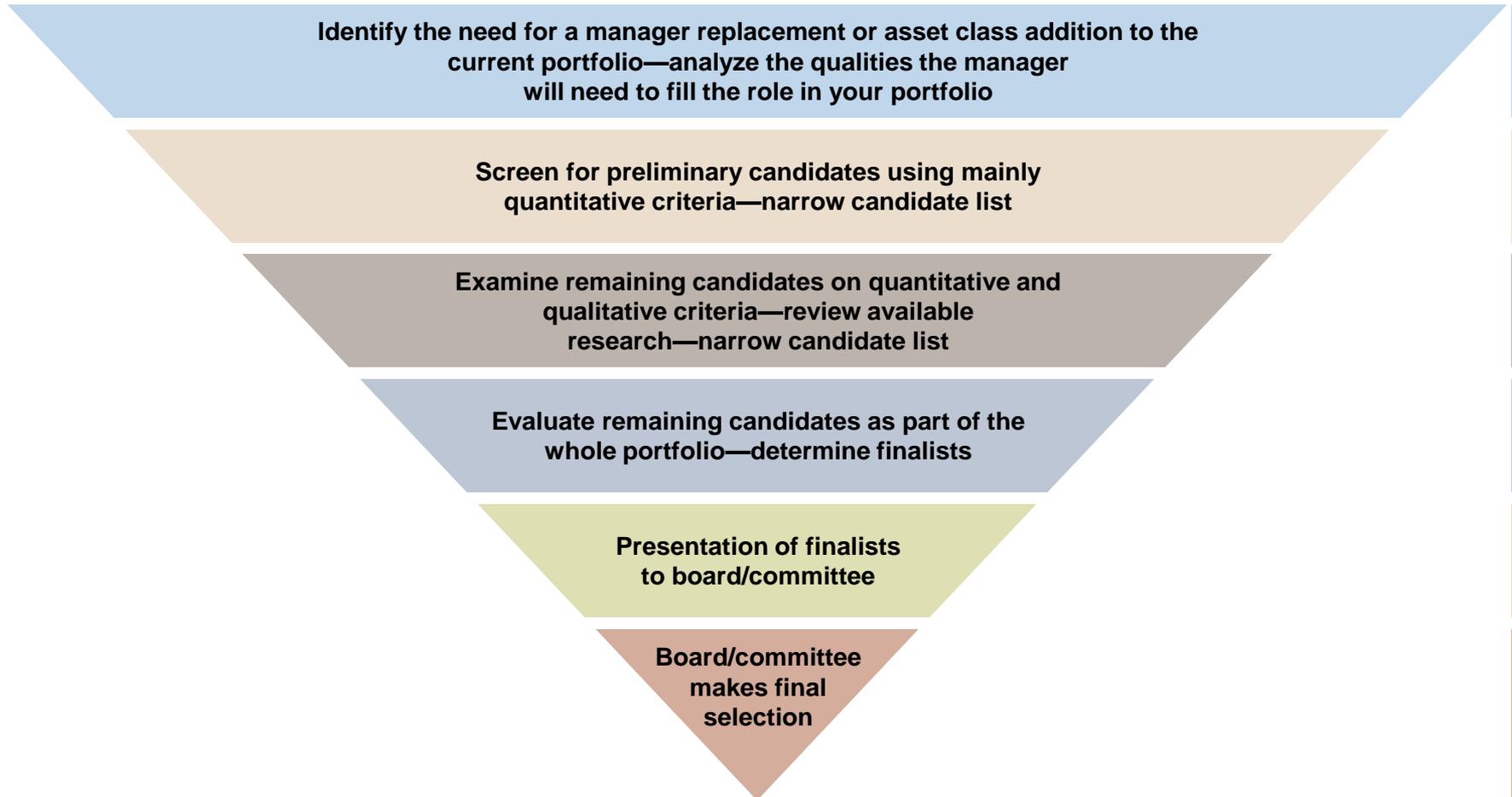
❖ *Thompson Reuters*

❖ *Informa Investment Solutions*

❖ *Morningstar*

❖ ***YOUR INVESTMENT CONSULTANT***

# Manager search and recommendation



# Analyze Information – Qualitative and Quantitative

Our comprehensive review includes both:

- Qualitative assessment:
  - Does the investment firm/manager have the special combination of stability, skill, independent thinking, talent and experience to pursue out-performance over the long term?
- Quantitative analysis:
  - Is there a demonstrable track record to prove it?
  - Is the manager's investment performance the result of skill or luck?





# Analyze Qualitative & Quantitative Information

Collect and analyze information

We consider criteria in the following areas:

## Organization

- Is it financially and structurally sound?
- Does it have incentive arrangements and retention plans?
- Are there adequate resources?
- Disaster-recovery plan?

## Quality of personnel

- Are there experienced and skilled investment professionals who work well as a team?

## Philosophy

- Is there a clearly defined investment philosophy?

## Process

- Are the methods and procedures sound and consistent?
- Is decision-making process effective?
- Are buy and sell disciplines effective?
- Have they performed well in the past and are they structured to perform well in the future?

## Quality of research

### Do they:

- Maintain proper resources to track full universe?
- Retain knowledgeable and skilled research team?
- Demonstrate objectivity and creativity?

## Risk management

- Is there an appropriate system of risk controls in place?
- Is it managed in accordance with the stated philosophy and process?

## Style consistency and implementation

### Do they:

- Adhere to style consistency?
- Possess appropriate trading capabilities?
- Maintain system of checks and balances?

## Performance

- Do they demonstrate competitive past absolute and risk-adjusted performance results?
- Is it consistent with stated investment philosophy?
- Is track record from the current team?

# Using Your Investment Consultant



# Summary

- Assemble the team
- Develop a timeline
- Create the RFP
- Identify Candidates to Participate & Distribute
- Review & Score
- Interview
- Decide
- **Use Resources Available Thru Your Investment Consultant**

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