J.P.Morgan

INSTITUTIONAL PORTFOLIO SOLUTIONS:
ENDOWMENTS, FOUNDATIONS & FAMILIES

Building a better RFP:
A guide to assist your search for an investment advisor

A GROWING NEED

Recognizing the challenges of managing substantial assets, institutions and families are increasingly relying on outside investment advisors to oversee parts or all of their investment portfolios. However, hiring an outside advisor presents a challenge of its own—namely, identifying one with the insight and tools to achieve desired investment goals. Clearing that hurdle requires an extensive due diligence process. This is where the crucial **request for proposal (RFP)** comes in.

An RFP is a questionnaire designed to obtain the necessary information to help identify the optimal provider for a given mandate. As part of a broader screening process, a well-crafted RFP will help an investor narrow the field. Before issuing an RFP, the investor works internally to decide if they should release a public RFP (e.g., disseminate broadly) or if they want to reach out to target firms to respond. Overall, creating an effective RFP can be an intensive process that requires considerable thought and planning.

WHY ISSUE AN RFP

An RFP can be a helpful tool in choosing the right advisor to take on your institution or family's investment portfolio, particularly if you're planning on the following:

- Implementing governance best practices
- Addressing the investment performance issues of an existing advisor
- Responding to a change in the existing advisor's investment philosophy or process
- Seeking to review overall costs
- Fulfilling a new investment mandate
- Responding to a change in the advisors' investment philosophy or process

STEPS TO CREATE AN RFP

Whether an RFP is issued by an investment committee, a family member, a trusted advisor or an employee, there are multiple steps in the process, including:

- Developing a timeline for the search process
- Identifying the firms to receive the RFP or opening up the process to the public
- Writing the RFP
- Reviewing and evaluating the responses to the RFP
- Interviewing top candidates and ultimately selecting an advisor

It's important to ask the right questions in order to evaluate the qualities of different advisors, which makes the preparation of the RFP an integral component of the search process. A typical RFP includes standard queries about the recipients' structure, leadership, investment offering, philosophy and process, along with performance and fees. Yet there is no generic RFP as investors have different needs and reasons for issuing one.

THE OUTSOURCED CIO (OCIO) TREND

Historically, an investment committee or family might issue an RFP to identify an advisor to operate in a consulting capacity, or manage a single component or "sleeve" of the total portfolio, such as an allocation to private equity or fixed income. Today, investors are increasingly creating RFPs to find managers with the resources to oversee their entire investment portfolio. Under this model—known as "outsourced CIO" or OCIO—an independent advisor is given discretion to execute the investment strategy within pre-defined guidelines. The investor's focus can then shift from managing an investment portfolio to monitoring the practices and performance of the advisor.

As investment complexity grows, family offices are also increasingly allocating at least partial investment discretion to outsourced providers. Most family offices prefer to be directly involved with direct investing, private equity and real estate transactions, while delegating management of financial portfolios to a third party.

The key benefit of the OCIO model is the expertise and resources it provides, lightening the workload of investment committees and staff, allowing them to focus on the critical aspects of investment policy and devote more time to other functions. As a result, 50% of organizations polled[1] reported having "substantially" outsourced their organizations' investment management responsibilities. According to Cerulli Associates, outsourced assets in the United States will grow by $671 billion over the next five years.[2]

[1] Source: 2018 NACUBO-Commonfund Study of U.S. Endowments.

[2] Source: 2019 Outsourced-Chief Investment Officer Survey.

GETTING THE RFP PROCESS RIGHT

We recommend adopting the following best practices to optimize the RFP process:

DEVELOP A TIMELINE

Setting and meeting deadlines for the completion of each phase of the search process is key to keeping the project on track.

START THE PROCESS EARLY

Completing the RFP process is complex and time-consuming. The investor should allow at least three months to write the RFP and conduct the search. Even prior to a search, meet with potential advisors that you might look to include in a future search.

CREATE AN INCLUSIVE TEAM

Many search committees could benefit from the perspective of staff or family members directly responsible for executing an important initiative or strategy. Ensuring a diverse group with a variety of industry perspectives to bring to the table is recommended, as well.

ALIGN THE RFP WITH THE PRIORITIES OF THE INVESTOR

For an RFP to serve as an effective manager evaluation and selection tool, it must reflect the mission and priorities of the investor.

CONSIDER A SCORING METHODOLOGY

Ask each reviewer to score each RFP on a variety of categories of importance to the organization. Ask people to do this independently and then come together as a group to review and discuss.

ASK YOUR PEERS

Don't forget to ask any peer organizations or families for any tips or sample questions that they found helpful.

We have found that those who are most satisfied with their RFP process spent time up front thinking about their organization's key goals and priorities, which then shaped the questions in the RFP and helped to appropriately evaluate different offerings. When done right, this process can help identify potential investment advisors and set up your organization for success for years to come.

SAMPLE RFP TIMELINE

Although each investor should customize the RFP process to suit their needs, the below serves as a sample timeline to help with planning and establishing expectations.

SAMPLE TIMELINE

	PRE-RFP	ISSUE RFP	RFP REVIEW	INTERVIEWS & FOLLOW-UP	SELECT FIRM
1. Discuss areas of importance with investment committee/family board					
2. Assign ownership of the search process to a sub-committee or key point person					
3. Gather list of prospective advisors or open the process to the public as applicable					
4. Customize RFP questions to what's most important to the organization/family					
5. Share RFP with prospective advisors • Give 30 days to complete • Allow 15 days during this period for clarifying questions		30 Days			
6. Allow 15 days to review responses and condense group to 3-5 advisors			15 Days		
7. Conduct final round of interviews and allow time for follow-up questions				15 Days	
8. Select advisor					

SELECTING THE RIGHT INVESTMENT MANAGER

Investors often have distinct investment objectives and values, and it's vital that the RFP process captures what's most important to them. Those emphasizing capital preservation might make candidates' risk management capabilities a focus of the RFP process. A nonprofit dedicated to promoting social justice might make expertise in socially responsible investing its key selection criterion, and a family office focused on private markets might put emphasis on direct investing access and capabilities. Despite different priorities, your RFP should ask questions that illustrate capabilities across the below categories:

LEVEL OF CUSTOMIZATION

Variation in objectives, structure and payout obligations necessitates a customized approach that reflects specific risk tolerance, investment goals and return requirements.

Customization can be important in long-term and short-term asset allocation, investment vehicles, and whether the investment committee can have a voice around issues such as active versus passive, and sustainable investing.

INVESTMENT ADVICE AND IMPLEMENTATION

Consider the level of delegation and discretion you would like your advisor to take on. Investment advisors often have a fiduciary duty to act in the best interests of each client they serve, and to work diligently to identify the most appropriate investment solutions designed to deliver the desired outcomes. Advisors should have strong due diligence capabilities and implement investment strategies involving best-in-class managers.

INSTITUTIONAL MINDSET

Institutional-minded investors typically have a substantial asset base, long (often perpetual) time horizons, multiple capital pools with different objectives, varying investment return goals, and an appetite for investments beyond traditional stocks and bonds. Institutional families often have multiple capital pools earmarked for different uses, such as cash to fund a private equity program, income-generating assets, and a long-term "family endowment." Many charitable organizations in the United States spend 5% of assets annually (based on a smoothing rule) to maintain their tax-exempt statuses; assuming a 2% rate of inflation, this implies a return objective of 7%.

Consider whether an advisor would be able to understand the client's objectives and structure a portfolio that aligns with the specific timeframe, spending patterns, liquidity needs, return goals, risk appetite, investment constraints and governance structures.

ANCILLARY SERVICES

Other services peripheral to the core asset management offering could be valuable. Therefore, an RFP should determine the type of support services each advisor provides across governance assistance, reporting, custody services, family/board education and philanthropic advice.

SAMPLE RFP QUESTIONNAIRE

FIRM BACKGROUND

- Provide an overview of your firm.
- Number of investment-related staff.
- Number of offices.
- Related organizations.
- Ownership structure of your firm.
- Describe any other business affiliations.
- Have you ever been sanctioned or fined by the SEC, FINRA, FSA or any other regulatory body? If so, please describe.

CAPABILITIES

- Overview of services provided.
- Number of clients per advisor.
- Type of clientele (by industry and portfolio size).
- Assets under management (AUM).
- Describe your expertise and capabilities with alternative investments (if relevant).
- Describe your expertise and capabilities with Socially Responsible Investing (if relevant).

KEY PERSONNEL

- Identify the primary contact(s) and provide their information.
- Provide biographical information on all key persons to be assigned to this account, describing the role of each individual, number of years at your firm, their years of relevant industry experience, and professional designations or licenses.
- Describe your client service model and expected interaction with us.

INVESTMENT MANAGEMENT PROCESS

- Briefly describe your firm's investment philosophy.
- What are the primary strategies employed by your firm for adding value to portfolios?
- Describe your in-house market and research resources. What other sources are used on a regular basis?
- Describe your proposed portfolio strategy, including recommended types of investments, and how the assets will be managed.
- What recommendations would you make to our board/committee/family regarding changes to investment policies and procedures?
- Describe whether your approach would be considered active or passive.
- Describe the process by which you will assure compliance with our investment policy.
- Describe your risk management philosophy, processes and tools.
- Briefly describe any additional features, attributes or conditions that we should consider in selecting your firm.

MONITORING AND REPORTING

- Describe the frequency and types of reports you would make to us. Please provide sample reports.
- Are reports available online?
- How do you benchmark performance?
- Describe the type and frequency of in-person communication, meeting and schedules, etc.

FEES

- Provide the fee structure that would apply to this account.
- What is included in the proposed fee structure?
- Would you receive other forms of compensation from an engagement with us, such as commission, mark-ups, referral fees or soft dollars?

FOR MORE INFORMATION, PLEASE CONTACT:

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