



2014 RFP Symposium

UNDERSTANDING

Today's Selection Process

MAY 19
2014

New York Hilton Midtown | New York City



What's Hot in the Manager Selection Process

An Evaluation of Current Industry Trends

Presented by:

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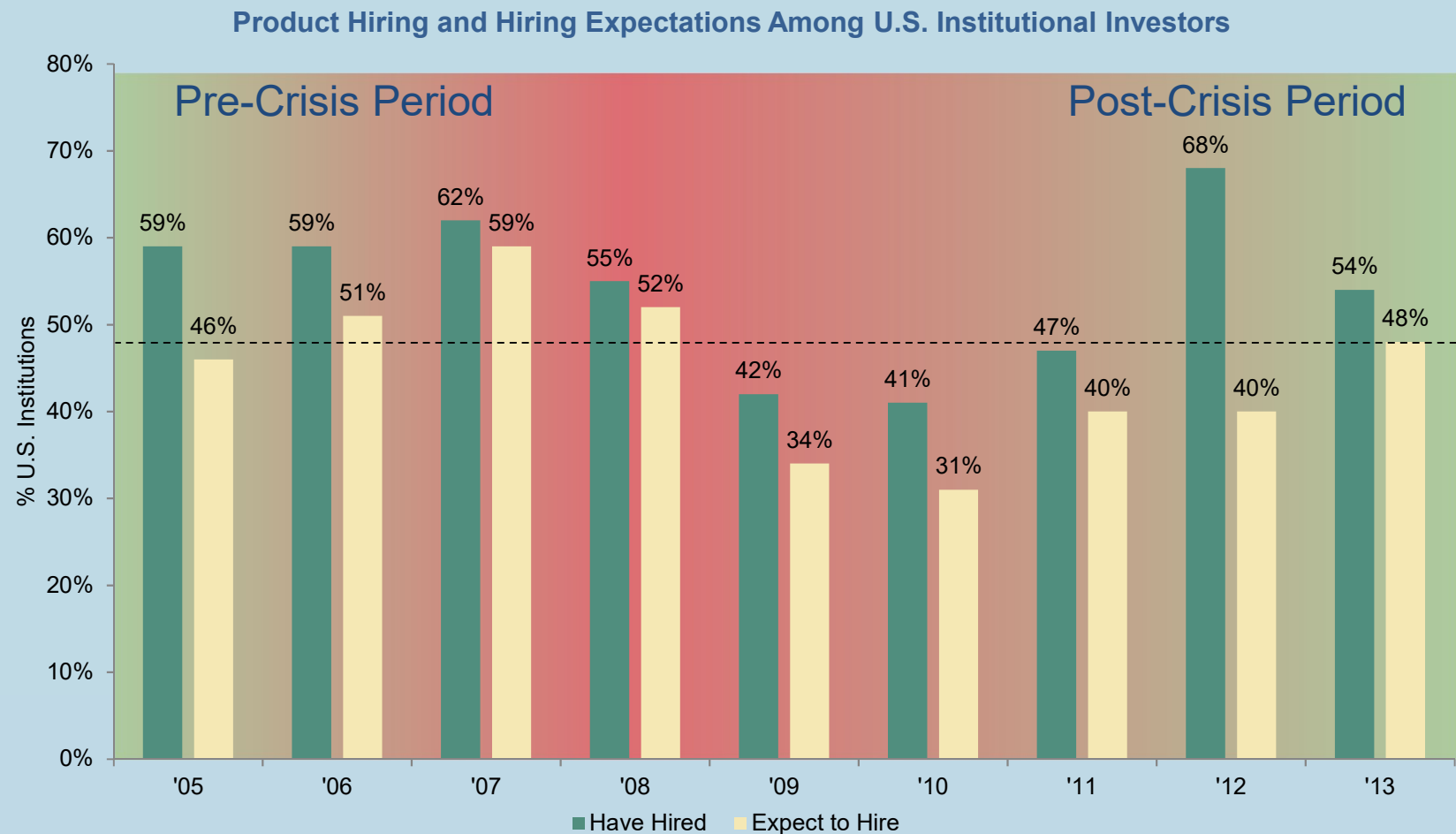
Greenwich Associates

May 19, 2014



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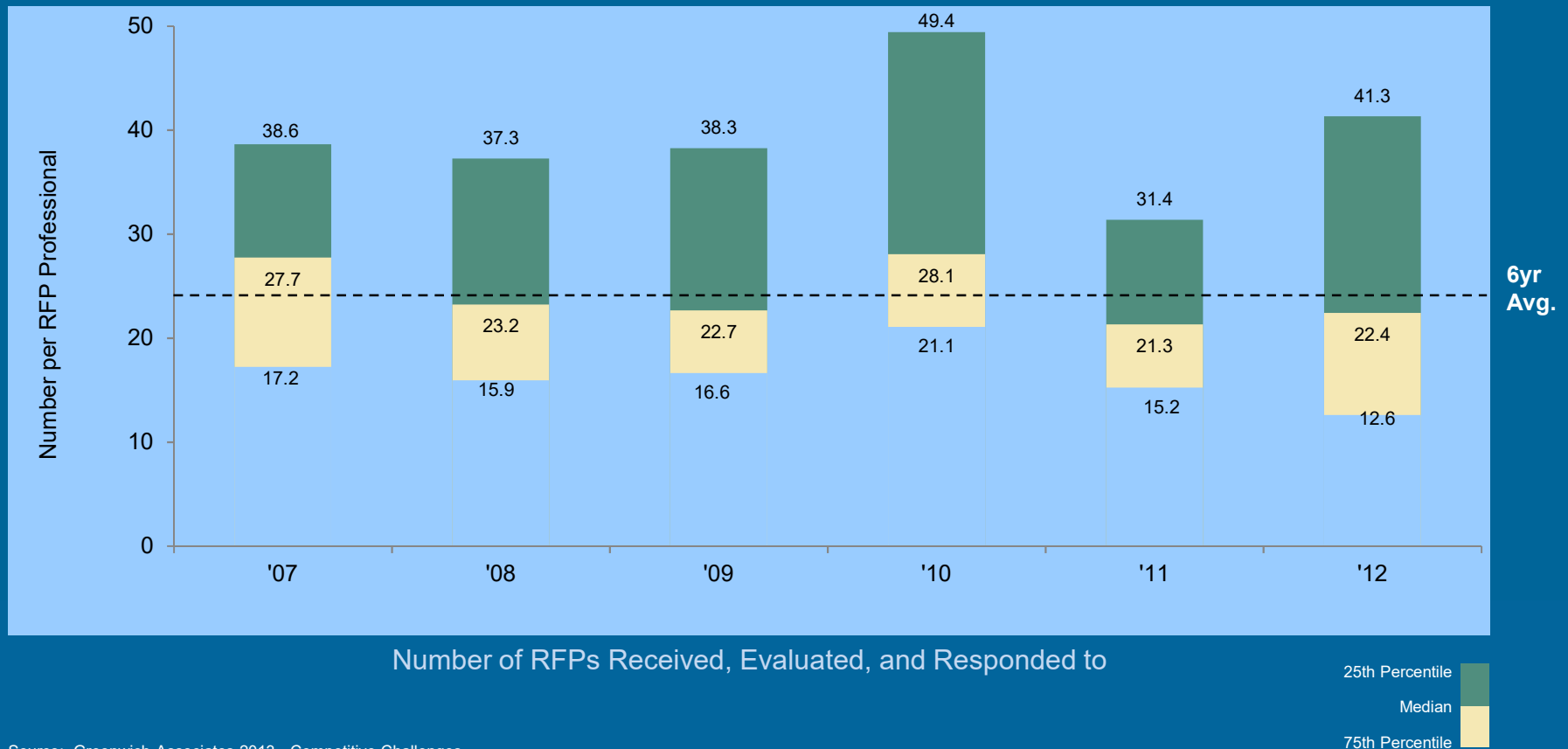
Expectations to hire a new investment manager are at the highest levels since the financial crisis.



Source: Greenwich Associates 2013, USII-13.

Institutional RFP activity is robust and will continue to be so – at the median, U.S. managers respond to 88% of RFPs they receive.

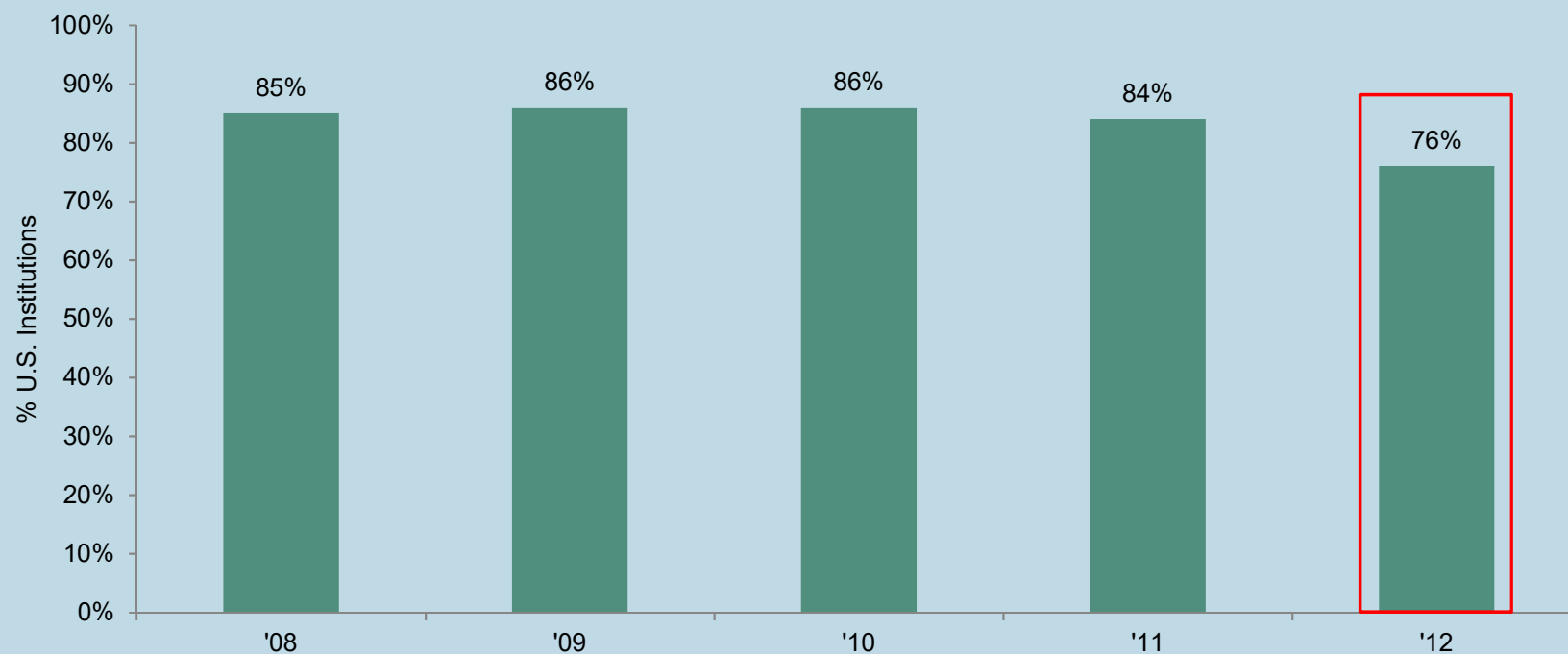
RFP Activity Among U.S. Asset Managers



Source: Greenwich Associates 2013 - Competitive Challenges

Although utilization has declined, U.S. institutional investors continue to rely heavily on the advice of investment consultants.

Usage of Investment Consultants for Advice on Investment Matters



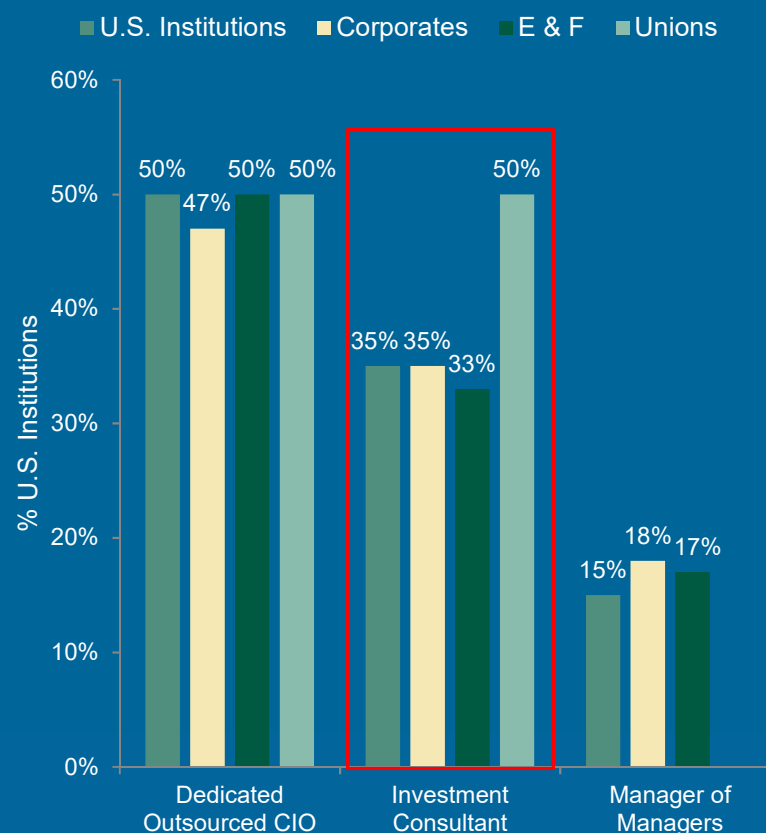
Source: Greenwich Associates 2012, USII-12. Consultant usage data for 2013 not available.

Discretionary outsourcing continues to be modest among plans with assets >\$250M, but we anticipate an uptick in smaller plans.

Plan to Hire Outsourcer in Next 12 Months



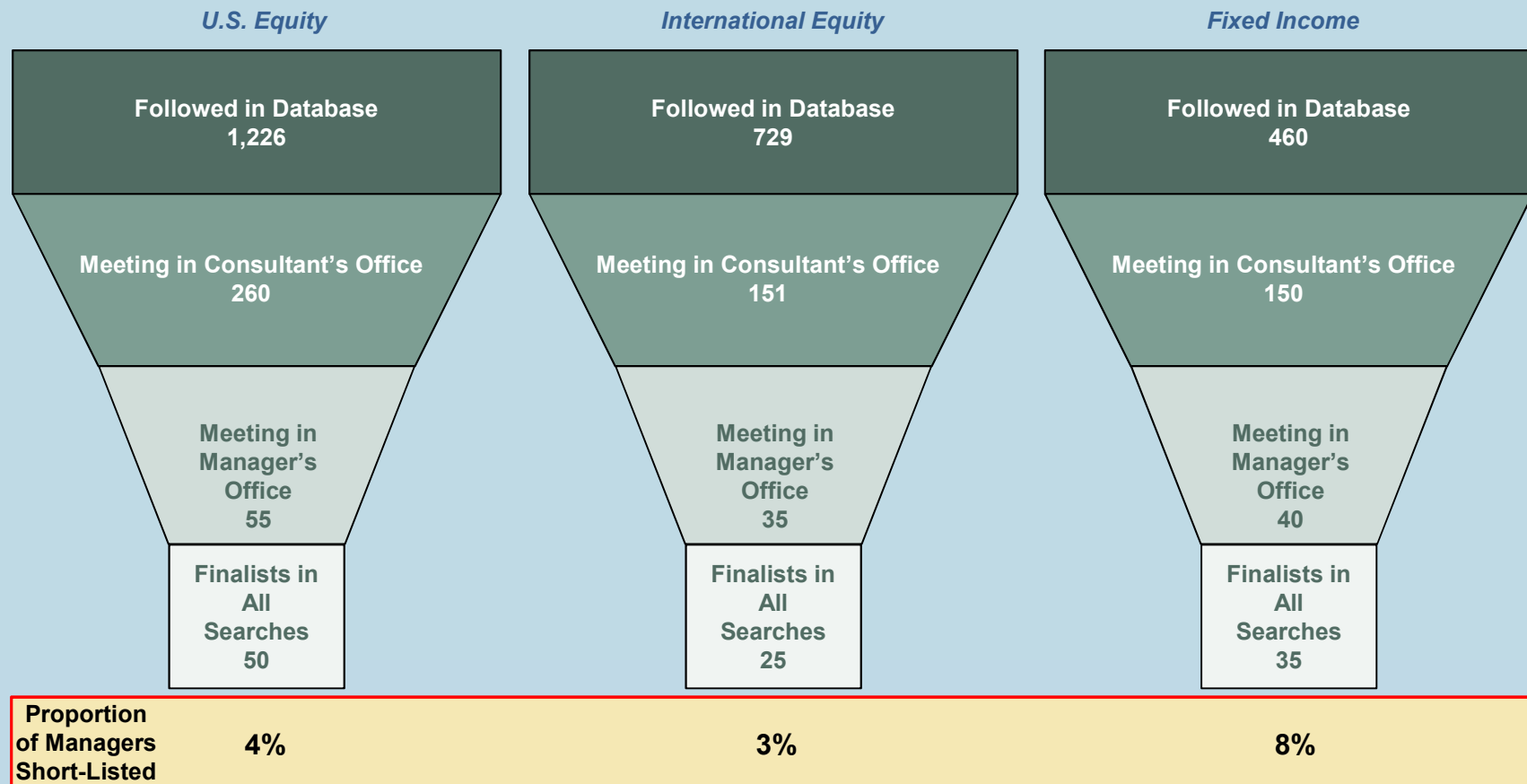
Type of Discretionary Outsourcer Considered



Source: Greenwich Associates 2013, USII-13.

Consultants remain extraordinarily selective, short-listing only about 5% of managers followed in their databases.

Investment Consultant “Funnel” – Large U.S. Consultants



Source: Greenwich Associates 2013, USIC-13

Institutional investors across regions consistently emphasize “soft skills” as critical components of the manager selection process.

Manager Selection Criteria by Institutional Investors

	Rank				
					
Clear and consistent investment philosophy	1	1	2	1	1
Capabilities of professional managing investments	2	2	1	3	3
Clear decision-making process	3	3	4	4	2
Retain key investment professionals	n/a	4	6	7	6
Achieve superior future performance	4	5	3	2	5
Credibility with investment committee/trustees	5	6	5	10	10
Understand client's objectives	6	7	7	6	7
Apply risk control techniques	n/a	8	8	5	4
Commitment to client service	n/a	9	9	9	12
Investment performance over the past 2-3 years	n/a	10	10	18	8
Advise on investment strategy/policy	n/a	11	11	12	9
Low fees	7	12	12	11	11

Source: Greenwich Associates Global Research.

Investment Consultants value these same factors.

A “winning” proposal demonstrates a manager’s value, focusing on the attributes about which investors and consultants care most.

- **Good risk-adjusted returns** always matter and are a prerequisite for success.

Institutional investors seek firms that generate good risk-adjusted returns relying on ...

- **A capable team** of experienced investment professionals who have worked together for a time, preferably five years or more for key members.
- **A clear and consistent investment philosophy** or set of beliefs to guide investment decisions.
- **A clear decision-making process** that allows the team to create portfolios for clients that consistently reflect the principles articulated in the investment philosophy, leading to successful outcomes.



Performance



People



Philosophy



Process



Source: Greenwich Associates 2014.

Despite an increase in the availability of tools to measure and predict outcomes, we think RFPs are here to stay.

- **Performance matters, but it is not the only differentiating factor.**
 - There is no completely reliable quantitative predictor of future performance.
- **Institutional investors and consultants are becoming increasingly demanding.**
 - The market is competitive and choices are abundant.
- **‘Good enough’ is the enemy of ‘great.’**
 - Funds and consultants want the best option, not simply a good option.
- **Accountability and risk management are in the limelight.**
 - Decision-makers must do their homework and cover all bases.

When performance lags, it's the other “3 P's” that will continue your firm's success.

Source: Greenwich Associates 2014.





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Are RFPs headed for extinction?

- Most surveyed managers do not expect to see a meaningful decline in the number of RFPs they must complete.
- Many managers reported receiving more requests - aligned with an explicit search - to update information on a targeted investment strategy in a specific database.
- Managers are generally seeing an uptick in requests for more qualitative content.

Source: Cerulli Associates

Enhancing the RFP document process

- Managers report greater success meeting 3-4 week turnaround time for a RFP than 1-2 week deadlines.
- Nearly 90% of managers identify maintaining the content warehouse a challenge but most deem it worthwhile.
- Staff retention is a major priority for most managers.

Source: Cerulli Associates

RFP & Related Documents: Best Practices



Invest time now, save time later

Standardized RFPs can play a role

Little things matter

Source: Cerulli Associates

Optimizing the database maintenance function

- More than half of managers cited the large number of *strategies* maintained to be a major challenge.
- Roughly 80% consider updating the large number of *databases* to be somewhat of or a major challenge.
- Data input errors are somewhat problematic for most firms. Nearly two thirds have a formal process for checking data.

Source: Cerulli Associates

Maintaining Databases: Best Practices



Prioritize first, then divide & conquer

Align database planning with product strategy

Staff sufficiently

Source: Cerulli Associates



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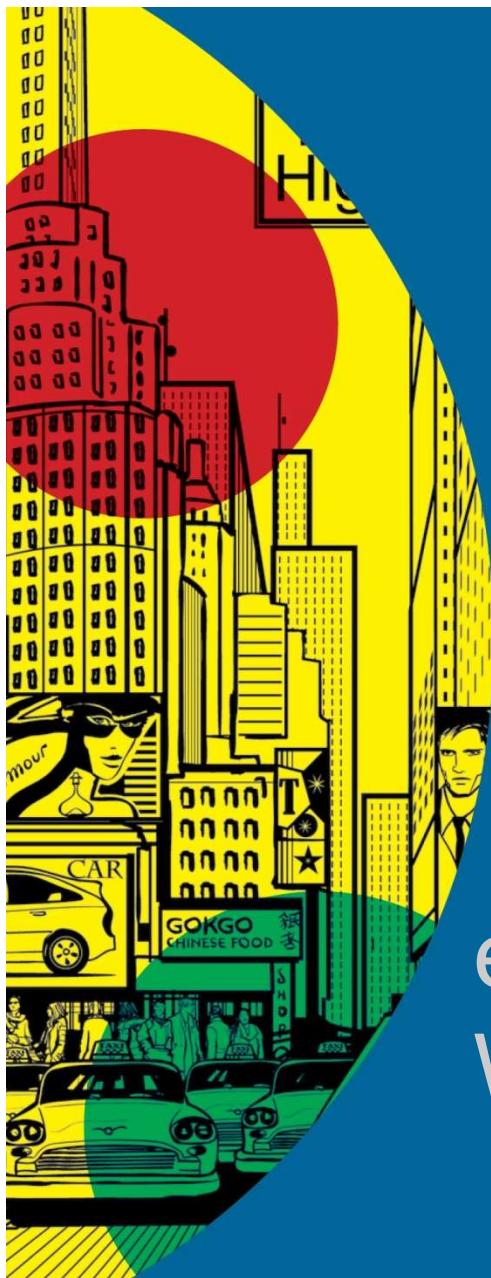
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Trends in Manager Selection Using Databases

eVestment Search Activity – What the Data Says



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What are consultants looking for?

Top 10 consultant & plan sponsor search categories 2013

	Data Point Categories	Data Points
1	Product	Asset Info
2	Product	Profile Info
3	Firm	Asset Info
4	Product	Performance
5	Product	Equity Characteristics
6	Product	Fixed Income Characteristics
7	Product	Vehicle Info
8	Firm	Ownership Info
9	Product	Risk Measures
10	Product	Team Description

And, more broadly, what strategies are active? Top 10 primary universes searched for all regions

Top Searched Universes (2013)



And – what types of strategies are growing in numbers?
New products added to eVestment in last 12 months

Strategy Type	New Products Added
Hedge Funds	321
US Equity	162
International Equity	160
Global Equity	121
US Fixed Income	104
Emerging Markets Equity	69
Global Fixed Income	67
Global Balanced	51
Alternatives	46
International Fixed Income	34
US Balanced	33
Total	1168

The Importance of Databases

- How Important?
 - Most institutional investors use consultants
 - 81% of public plans
 - 71% of endowments
 - 54% of Taft-Hartley plans
 - 38% of corporate plans
 - 26% of foundations
 - Over 94% of our consultant clients use our database for screening
 - 75% of managers never or rarely review the data
- Which Databases?
 - More than 60 globally
 - Traditional Strategies in eVestment:
 - 32,000+
 - Alternative strategies in eVestment:
 - 23,000+
 - 1.2 million annual profile views
 - 100,000 monthly profile views
 - Nearly 1,000 allocator clients

Most Important Consultant/Third-Party Database 2013



Source: Cerulli Associates *Managing RFPs and Database: Teams Best Practices for People, Process, and Technology*
Analyst Note: Cerulli Associates asked survey participants to rank the five most important investment consultant or third-party databases that they maintain. The chart scores each database based on the number of times they were listed and a weighted average of their ranking.



Searches

Boston Issues Emerging Markets Equity Mgr. RFP

The \$3.4 billion **Boston City Retirement System** today issued its RFP for managers to handle its \$258 million emerging markets equity allocation.

The plan is looking to invest up to half of the overall emerging markets equity portfolio with each potential new manager. The plan's current emerging markets allocation includes \$140 million invested in **Vontobel Asset Management** and approximately \$120 million with **AllianceBernstein**. Both firms are invited to rebid.

A copy of the RFP, along with related search documents, is available on general investment consultant **NEPC's** Web site (<http://www.nepc.com>) and proposals are due Feb. 8.

According to the RFP, interested firms must update their firm profile in the **eVestment database** (www.evestment.com) through Dec. 31.

Questions regarding the search should be directed to **Oliver Fadly** of NEPC via e-mail at ffadly@nepc.com.

The plan first approved the emerging markets equity search in November (fin|daily 11/19).

Executive Director **Daniel Greene** has not returned multiple messages seeking comment.

Database Trends

- AUM – more granular breakdowns
- Holdings – collection of holdings data
- Multiple track records and currencies – databases more global
- Investment Professionals – tracking turnover and tenure over careers
- Comprehension – increased questions and fields being added

Database Best Practices

- **Strategic Database Selection**
 - Managers need to develop a database strategy in order to optimize exposure and reach their target markets.
- **Be Conscious of Deadlines**
 - Although most databases are live, some clients only receive one data release per quarter.
- **Contact Consultants & Analysts**
 - Building relationships can increase your chance of being in a search.
- **Quality Assurance Team**
 - Follow a disciplined QA team and process.

The Importance of Databases

- A marketing channel in disguise?
 - Investments in CRM systems
 - Expenditures in Web sites
 - Creation of one-pagers and pitch books

“Public pension funds' hunt for money managers is moving toward a streamlined search process and away from the traditional RFP, a shift driven by investment consultants.”

Source: P&I 11/2012

Summary

- **Database Population is Evermore Important**
 - Consistent, accurate and timely information reaching investment consultants
 - Seek databases that are most appropriate for you to reach your target market

“The five most important consultant or other third-party databases that managers populate vary some, but are often the same. Many managers ranked Mercer, Callan, and Wilshire as one of the top-five databases for which they maintain data, and **eVestment ranked at the top of the list of every manager.**”

Cerulli Associates



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SRC: Manager Research & Ranking Process (MR²)

ORGANIZATIONAL CATEGORIES

Organizational Structure/Culture

4 Factors

Business Management

3 Factors

Stability

3 Factors

Business-Risk Management

7 Factors

INVESTMENT PROCESS CATEGORIES

Investment Philosophy

2 Factors

People

4 Factors

Collecting & Refining Information

9 Factors

Portfolio Construction

9 Factors

Trading

4 Factors

Validation

5 Factors

- Proprietary, forward-looking, bottom-up research approach to evaluating investment managers.
- Conduct over 1,300 investment manager meetings per year, including onsite due diligence.

SRC: Manager Research & Ranking Process (MR²)

RECOMMENDED

- Sound, convincing, and stable philosophy and process
- Exceptional investment professionals
- Emphasizes investment results.
- Places client interests ahead of business and asset growth
- Full conviction in strategy's ability to generate superior investment results

Included in manager searches

NOT RECOMMENDED

- Unstable and/or unconvincing philosophy and process
- Investment professionals have questionable investment acumen and/or limited investment experience
- Low conviction in ability to generate superior investment results
- Ineligible at a particular time because more information is needed to determine a rating

Develop an exit strategy; excluded from manager searches

SELL

- Philosophy and process considered unstable and/or unconvincing
- Ineffective investment professionals, high investment professional turnover and/or severe organizational distress

Recommend an immediate divestiture

- Managers are formally rated through MR² process and must be approved by committee. Over 850 Recommended strategies.

SRC: Manager Research & Ranking Process (MR²)

Additional Resources:

- Questionnaire (DDQ)
- eVestment Alliance
 - Performance charts for search books
 - Idea generation and supplemental research
 - Peer group evaluation and SRC proof statement
- Morningstar Direct

SRC: Manager Research & Ranking Process (MR²)

RFP Trends

- RFP versus DDQ
- RFP and online automation
- Public Plans
- Outsourcing (OCIO) trends