

Model Request for Proposal Equity

A Template for Small Institutional Investors

©2008 CFA Institute

ISBN 978-1-932495-90-4

Model Request for Proposal Equity

A Template for Small Institutional Investors

Presented by:

**CFA Institute Centre for Financial Market Integrity
Investment Adviser Association
Investment Management Consultants Association
Institute for Private Investors**

Contents

Introduction	1
A. Firm Information	2
Organizational Information	2
Firm Personnel	2
Client Service	3
Compliance	3
Proxy Voting	3
Governance	3
Trading	3
Brokerage/Soft Dollars	3
Firm Risk	3
B. Product Information	4
Personnel	4
Proposed Product	4
Assets under Management	4
Investment Philosophy and Process	5
Product Risk	5
Research	5
Portfolio Characteristics and Sector Weightings	6
Specific Questions for Equity	6
Fees and Account Minimums	8
C. Performance	9
Performance	9
GIPS® Compliance	9

Introduction

This tool was created for smaller institutional firms to expedite the request for proposal (RFP) process of selecting money managers. The aim is to standardize the questions so that it is easier for firms to prepare an RFP and simpler for money managers to respond.

About the Model RFP

- This model RFP outlines sample questions that cover the majority of information an investor may seek from money managers. It is intended as a guideline to be customized to meet a firm's unique needs.
- The essential characteristics of a money manager may not be easily conveyed in a standard entry on an RFP. We recommend that using the model RFP be only the first step in the money manager selection process.
- An investor is responsible for fully understanding the replies to the RFPs solicited. An outside adviser may be able to help the investor fulfill its fiduciary duty in this regard if the firm itself lacks the expertise.
- We have created three versions of this model RFP to meet the varying needs of professionals in the equity, fixed-income, and real estate markets.

About the Authors

This model RFP was developed by the CFA Institute Centre for Financial Market Integrity in collaboration with the Investment Adviser Association, Investment Management Consultants Association, and the Institute for Private Investors.

The CFA Institute Centre is the research, policy, and advocacy division of CFA Institute. With 96,000 members in 134 countries and territories, CFA Institute is the global, not-for-profit professional association that administers the Chartered Financial Analyst® (CFA®) and Certificate in Investment Performance Measurement (CIPM) curriculum and examination programs worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. More information can be found at www.cfainstitute.org.

The Investment Adviser Association (IAA) is a not-for-profit organization that exclusively represents the interests of U.S. SEC-registered investment advisory firms. Founded in 1937, its current membership consists of more than 500 firms that collectively manage in excess of US\$9 trillion in assets for a wide variety of individual and institutional investors. For more information, please visit www.investmentadviser.org.

Investment Management Consultants Association (IMCA) was established in 1985 to deliver the premier investment consulting and wealth management credentials and world-class educational offerings. Through membership, conferences, certificate programs, publications, and designations, IMCA provides advisers and consultants with the knowledge, tools, and resources required to best serve their clients. The cornerstone of IMCA is the Certified Investment Management AnalystSM (CIMA[®]) designation. IMCA also delivers the Chartered Private Wealth AdvisorSM (CPWASM) designation. To learn more about IMCA membership and educational opportunities, please visit www.IMCA.org.

Founded in 1991, the Institute for Private Investors (IPI) is a private membership organization with the mission to improve how investors work with advisers and how advisers work with investors, for the benefit of both. IPI ensures a safe harbor for investor education and the confidential exchange of information. Because IPI does not endorse any investment services, strategies, or managers, program content is academic. Events are held globally and also in collaboration with the Wharton School at the University of Pennsylvania and with Stanford University. Membership dues and educational fees are the sole source of revenue. Please visit www.memberlink.net for more details.

A. Firm Information

Organizational Information

Please provide the following information:

1. Firm name.
2. Firm headquarters mailing address.
3. Firm headquarters telephone number, including country code.
4. Name of individual(s) completing questionnaire.
5. Individual(s) telephone number(s), including country code(s), and address(es).
6. Individual(s) fax number(s), including country code(s).
7. Individual(s) e-mail address(es).
8. Date questionnaire completed (Day/Month/Year).
9. Firm classification:
 - Bank
 - Insurance Company
 - SEC-Registered Investment Adviser
 - Non-U.S. Registered Investment Manager (country and entity registered with: _____)
 - Other
 If other, please explain _____.
10. Brief history of firm, including ownership, with an emphasis on any material developments in the past three years. Please include prior names and the length of time your organization has been in business under its present name and ownership.
11. Organizational chart of firm.
12. Firm's current succession plans.
13. Name of parent firm (if any) and the name of affiliations or subsidiaries (if any).
14. Date of firm inception.
15. Name of regulatory body overseeing the firm, this product, and the dates of registration, as appropriate.
16. Firm's fidelity bond and fiduciary liability insurance policies, including coverage amounts.

Firm Personnel

Please fill out the following table, listing the number of individuals in each job function. If individuals hold multiple job functions or responsibilities, only count them once under their main responsibility and please detail this in the "Notes" section at the bottom of the table.

Job Function	Number of Employees	Avg. Yrs. Experience	Avg. Yrs. Tenure
Compliance personnel			
Portfolio managers			
Research analysts			
Traders			
Economists			
Client service			
Marketing			
Other staff			
Total firm employees			
Notes:			

Client Service

1. Please indicate the scope of services that will be provided for this account. Please include a description of how client servicing/communication responsibilities are divided between portfolio managers and client service/marketing personnel and how often portfolio managers meet with clients to review the portfolio.
2. Please describe the client-reporting process. How frequently are reports made available?

Compliance

1. Please describe the compliance assessment process, including the time period covered, testing methods, and frequency.
2. When was the last compliance assessment? Please attach a summary of the report, if possible.
3. To whom does the chief compliance officer report?
4. Please provide a copy of the registration forms you have provided to your local regulator. (If you are an SEC-registered adviser, please provide your firm's Form ADV, Part 1 and 2.)
5. When was your firm's last regulatory inspection (e.g., by the SEC in the United States or the Financial Services Authority in the United Kingdom)? Please provide a summary of the inspection results.
6. Has any regulatory body or market authority issued any orders or other sanctions against your firm in the last five years? If yes, please describe.
7. Is your firm or any affiliate the focus of any pending or ongoing litigation, formal investigation, or administrative proceedings related to money management activities? If yes, please describe.
8. Have the principals of your firm been under investigation related to money management activities in the last five years? If yes, please explain.

Proxy Voting

1. Please provide the identity of any third-party proxy voting services used by your firm.
2. If your firm uses proxy voting services, how are these firms selected?
3. Please list the amount paid to any proxy voting services used by your firm over the last three years.
4. If your firm uses proxy voting services, are these services paid for directly or through soft dollars?

Governance

1. Please provide a summary of your firm's internal control structure.
2. Please describe any potential conflicts of interest your firm may have in the management of this account. If there are conflicts, please describe how they are addressed. When answering this question, you may refer to Schedule F of Form ADV Part 2 or another disclosure document, if appropriate.

Trading

1. Please describe any restrictions you may have on client-directed transactions.
2. Please describe your policies and procedures concerning trading and execution, including those relating to (i) how your firm seeks to achieve best execution; (ii) how your firm ensures equitable trading for all clients (i.e., the account of one client is not favored above the account of another) and exceptions to this policy, if any; (iii) allocation of trades (e.g., by portfolio manager or automated); and (iv) side-by-side management of hedge funds and other products, if applicable. When answering this question, you may refer to Schedule F of Form ADV Part 2, if appropriate.

Brokerage/Soft Dollars

1. What is your firm's approach to the use of soft dollar arrangements?

Firm Risk

1. Please provide a short biography or resume of the person(s) who is (are) responsible for the overall risk management of your firm.

B. Product Information

Personnel

- Please provide a list of all key personnel involved in the management of this product (i.e., dedicated to the product), including the lead portfolio manager, marketing personnel, and research analysts. For the lead portfolio manager, please include the size and quantity of portfolios he or she currently manages within this product and any other strategies he or she works on. For each individual, please answer in the format below and attach biographies.

Name	Title	Education	Role at Firm	Total Inv. Exp. (years)	Tenure with Firm (years)

Proposed Product

- Please provide the specific name and the inception date of the product under consideration.
- What is the investment objective of this product?
- What benchmark is most appropriate for this product and why?

Assets under Management

- Please fill out the following tables for the **product** in question:

Account Type	Asset Amounts	Number of Accounts
Corporate		
Public fund		
Union/multi-employer		
Foundation and endowment		
Insurance		
High-net-worth individuals		
Wrap accounts		
Sub-advised assets		
Other, please explain		
Total		

Vehicle Type	Asset by Vehicle	Accounts by Vehicle
Separate account		
Commingled fund		
Mutual fund: institutional class		
Mutual fund: retail class		

	Accounts Lost			Accounts Gained		
	Number	Dollars (US\$ millions)	% of Product Assets	Number	Dollars (US\$ millions)	% of Product Assets
2007						
2006						
2005						
2004						
2003						
2002						
2001						
2000						
1999						
1998						
1997						

2. Please discuss the reasons for the lost accounts indicated in the table above (not including plan terminations).
3. Please provide a representative client list for this product and at least three client references. For each reference, please include the client's name and the length of the relationship as well as the client's e-mail address and phone number.

Investment Philosophy and Process

1. Please briefly describe your firm's investment philosophy. How has it changed since the inception of this product?
2. Please discuss your firm's investment strategy, screening processes, and portfolio construction methodology.
3. How do you decide to buy or sell a security?
4. Are portfolios managed by individual managers or teams?
5. To what extent does this product use leverage and derivatives? Please explain.
6. Do managers follow a "model" portfolio, and if so, to what extent is management permitted to deviate from such a model portfolio?
7. How frequently are investment policy or strategy meetings held?

Product Risk

1. Please describe how your firm controls portfolio investment risk.
2. How does your firm currently measure/track risk for this product (e.g., standard deviation, beta, other)?
3. Do you stress test your portfolios? If so, how do you stress test your portfolios?

Research

1. Please provide an overview of your research, including the use of fundamental, technical, and quantitative analyses. Please provide any additional comments that are unique to your firm.

Portfolio Characteristics and Sector Weightings

1. Please fill out the following table for this product, if applicable:

Country/Market	% Weight
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

Specific Questions for Equity

1. Please fill out the following tables if the product in question has an equity mandate:

Strategy

Current average number of holdings for this product	
Historical range average number of holdings	
Average annual turnover (by weight) for this product	
Turnover range for this product	
Realized long-term and short-term capital gains mix over last three years. (If applicable, please provide a note.)	
Current average cash position	
Historical range in cash for this product	

Representative Account Fundamental Characteristics

Current dividend yield	
P/E (trailing 12 months)	
P/E (forward 12 months)	
P/B	
P/Sales	
P/Cash Flows (trailing 12 months)	
Dividend yield	
5-Year ROE	
Earnings growth (past 5 years)	
Earnings growth (next 5 years)	
Avg. weighted mkt cap	
Weighted median mkt cap	

2. To what extent do you use hedging strategies for this product, including currency hedging and/or any leverage?

3. If the product in question has an equity mandate, please fill out **either or both** of the following allocation tables depending on the practice or preference of your firm:

S&P/MSCI Global Industry Classification Standard,
Excluding Cash (Invested Portfolio Only)

Industry	% of Portfolio
Consumer discretionary	
Consumer staples	
Energy	
Financials	
Health care	
Industrials	
Information technology	
Materials	
Telecom services	
Utilities	
Other	
Total	100%

Russell Sector Classifications,
Excluding Cash (Invested Portfolio Only)

Industry	% of Portfolio
Autos and transportation	
Consumer discretionary	
Consumer staples	
Financials	
Health care	
Integrated oils	
Materials and processing	
Other energy	
Producer durables	
Technology	
Utilities	
Other	
Total	100%

4. What is the distribution of your portfolios managed in this investment approach according to the following capitalization ranges (in U.S. dollars) for the last five years?

Range	% of Portfolio by Year				
	2007	2006	2005	2004	2003
\$0 to \$250 million					
\$250 million to \$500 million					
\$500 million to \$1 billion					
\$1 billion to \$5 billion					
\$5 billion to \$10 billion					
\$10 billion +					
	100%	100%	100%	100%	100%

Fees and Account Minimums

1. Please list your fee schedule for this product. Please include performance-based fees, the basis for those fees, and any other fees that may be applicable to the running of this account.
2. What is the minimum account your firm will accept?
3. Does your firm charge a minimum annual fee? If so, what is this fee? Will it stay the same or change in the future based on some set formula?
4. Under what circumstances are fees negotiable?
5. What is your billing frequency?

C. Performance

Performance

1. If your firm is GIPS® compliant, please attach a GIPS-compliant presentation for this product and skip this table.

If your firm is NOT GIPS compliant, please either attach a chart detailing your firm's performance for this product for at least the past 10 years (or the life of your firm), including as much detail as possible beyond merely performance data, OR fill out the following table:

Year	Gross of Fees Return (%)	Net of Fees Return (%)	Benchmark Return (%)	Number of Portfolios	Internal Dispersion (%)*	Total Composite Assets	Total Firm Assets
2007							
2006							
2005							
2004							
2003							
2002							
2001							
2000							
1999							
1998							
Total							

*Please either specify the currency used or indicate the date of the foreign exchange rates used to convert into the other currency.

GIPS Compliance

Please respond to Questions 1–2 if your firm is GIPS compliant:

1. How many years has your firm been GIPS compliant?
2. Has your firm been verified? Please specify the name of your verifier and provide a verification letter. Please provide the number of years your firm has been verified.

Please respond to Questions 3–15 if your firm is NOT GIPS compliant:

3. Please name and define the composite for the strategy that is the subject of this RFP.
4. When presenting gross of fees returns, please disclose if any other fees are deducted in addition to trading expenses.
5. When presenting net of fees returns, please disclose **exactly what** other fees are deducted in addition to the investment management fees and trading expenses.
6. If your firm uses a custom benchmark, please describe the benchmark and the process and rationale behind the creation of this benchmark.
7. Please include a measure of dispersion used for each composite, including the reason why that measure of dispersion was chosen.
8. Please disclose your firm's treatment of withholding tax on dividends, interest income, and capital gains.
9. Please disclose and describe any inconsistencies in the exchange rates used among the portfolios within a composite and between the composite and its benchmark, **if applicable**.
10. Please disclose the policy used to allocate cash to carve-out returns, **if applicable**.

11. Please disclose the use of any subadviser(s) and the periods used.
12. Is there a minimum asset level below which portfolios are not included in a composite? If so, what is that level?
13. Please disclose the currency used to express performance.
14. Is additional information regarding policies for calculating and reporting returns available upon request?
15. Please disclose if your firm does not value portfolios at the end of each month (i.e., either the last day of the month or the last business day of the month). If so, please explain why not.



INVESTMENT ADVISER
ASSOCIATION

INSTITUTE
for
PRIVATE
INVESTORS[®]



IMCA
investment
management
consultants
association

