

HOW TO RUN A CONSULTANT OR OCIO SEARCH: NUTS AND BOLTS

THE TOOLS YOU NEED TO SUCCESSFULLY PROJECT MANAGE A SEARCH

There are plenty of logistics involved in executing an objective, documented process to search for an OCIO or investment consultant.

Generally, organizations and committees understand the basic process: find candidates, create a questionnaire that candidates fill out, read responses, select and interview finalists, and hire a new consultant. It's all the tiny details and logistical issues that pop up as an organization goes through this process that cause problems!

In this report, Alpha Capital Management addresses some of the most common logistical questions we get from clients and potential clients. We break the process into three distinct phases: Design and Deliver, Analyze and Evaluate, and Select. Our hope is that this report gives your organization the tools it needs to successfully manage the search process, whether you outsource it to a search firm or do it yourself.

WHAT HAPPENS FIRST? DESIGN AND DELIVER

When should our committee decide between OCIO and non-discretionary service models?

As soon as possible! This is a hot topic, and most committees we work with are trying to answer the question of how much (if any) control to cede to their consultant. Are you looking for a partner or a money manager?

We have seen clients push off this decision until later in the search process, choosing to run a hybrid search that includes full OCIO solutions, implemented consulting, and non-discretionary (traditional) consulting bids. This is certainly an option, but the service model does tend to keep dominating conversations throughout the search process, and the debate distracts from the ultimate goal of finding the best firm to provide the services that your organization needs.

We highly recommend that your committee spend time understanding and evaluating the different service models available *BEFORE* anything else happens. Once the committee has identified the best direction for the organization, the search process can proceed.



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How should our committee identify candidates?

Get references. Your recordkeeper, legal counsel, custodian, actuary, other service providers, and network of contacts at other organizations are good sources of consultant or OCIO referrals. Respected industry publications such as Greenwich Associates and Pensions and Investments (P&I) also publish lists of the major consulting and OCIO firms, which can provide a good starting point to research and identify candidates.

Keep in mind that firms tend to have areas of expertise and specialization – this may be corporate plans vs. endowment and foundation plans. Try to determine who has the most experience with your client type and what special resources they offer.

Should the finals date be set up front?

Yes! We like to schedule two meetings as early as possible in the search process: the selection meeting (where RFP responses are discussed and final candidates are selected) and finals. It is very difficult to get the entire investment committee in a room at the same time, especially if this meeting is outside of the normal schedule – the easier you can make this process on all involved parties, the smoother it is likely to go.

We often add a “Timeline” section to the RFP so that candidates can also plan around this date, increasing the likelihood that all members of the proposed team can attend the finals presentations.

How much time do firms need to answer the RFP?

Generally, we advise four weeks. This does depend on the length and complexity of the RFP. Keep in mind that consulting firms complete hundreds of RFPs and are quite practiced at it. We nonetheless try to give candidates six weeks to complete particularly complex RFPs.

What materials should our organization provide to candidates along with the RFP questionnaire?

A list of required services as well as details on the portfolio are important for candidates to consider when crafting the proposal. The number and size of plans under consideration, frequency of committee meetings, spending policy (non-profits), if the pension plan is closed or frozen (retirement plans), and other key details should be included along with background information on your organization.

An important reason to go to RFP every 5-7 years is to fulfill governance best practices, including having outside firms review the investment policy statement (IPS) and portfolio asset allocation for completeness, alignment with current best practices, and ability to meet your organization’s goals. We provide the IPS and current asset allocation in nearly every search to elicit this valuable feedback.

How many questions should our RFP contain?

More important than trying to hit a target number of questions is to make sure that the RFP asks for the



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information you need to compare candidates and select the best firm for your organization. If you don't care about how a firm handles spending policy, don't ask for that information. The best RFPs ask exactly as many questions as they need to compare consulting firms – and no more.

Our RFPs are usually about 100 questions. This, consultants tell us, is a lot. Many RFPs we see online and from other organizations have a lower number of questions, but those questions almost always have multiple parts. We find that the more parts a question has, the more likely it is that the candidate provides an incomplete response. This results in a lot of back-and-forth and wasted time. Instead of asking one question with five parts, we prefer to ask five one-part questions.

Should candidates be notified of all questions we receive throughout the process and their answers?

In theory, this levels the playing field. In practice, we often don't find it necessary as most of the questions and answers we get are not material – the caveat, of course, is that some processes (like those for public plans) require this. If several consultants ask the same clarifying question, we distribute the answer more broadly to candidates. And if we release new information to one firm, we release it to all firms.

What is a “quiet period,” and does our organization need to include one?

This denotes a period of time after the RFP responses have been collected where candidates are not allowed to contact the organization. The goal of a “quiet period” is to avoid firms trying to influence the process – for example, a candidate taking a committee member out for expensive entertainment in an attempt to win the business. Similar to the last question about notifying all candidates of questions and answers, this is typically required by public plans and not used by others.



ANALYZE AND EVALUATE

Who should read the RFP responses?

RFP responses with exhibits can range anywhere from 200-600 pages (or more). We once received a RFP that included a 4,000+ page Form ADV in addition to all of the other responses and exhibits.

If your organization relies on a volunteer investment committee, or your committee is staffed with employees who have other pressing responsibilities, answering this question is often the most difficult part of the RFP. Search firms like Alpha Capital Management and our peers exist for clients who wish to outsource the project. For those who do it themselves, dividing the work among committee members or creating a sub-section of the committee assigned to read and summarize a few RFP responses each is likely your best option to ensure that it gets done. If the full committee is asked to review every single RFP response, you might find that no one does it!

How should we evaluate and score candidates?

Hint: don't wait until the RFP responses come back to answer this question. While writing the RFP, it is important to keep your evaluation criteria in mind to ensure that your RFP asks the right questions.

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We recommend scoring candidates using a mix of quantitative and qualitative characteristics to score candidates. We steer clear of highly formulaic scores. We also compare candidates relative to each other based on the needs of our client. No two clients of ours focus on exactly the same things, so it makes sense to customize the scoring system.

SELECT

How many finalists should we select? Is the incumbent automatically invited?

Three finalists seems to be the perfect number, though plenty of our clients end up with four. None (yet) have opted for two. Keep in mind that four candidates already makes for a very long day: four hours of presentations, one hour of breaks and lunch, and one hour for pre- and post-discussions. Five candidates would likely stretch to two days and feel quite repetitive. Clients who still have five candidates in mind at this stage in the project should further narrow the candidate pool. We've also had clients who elect to meet with several semi-finalists in an informal setting to get to know the firms in person before selecting finalists.

The incumbent is frequently, but not always, invited to present at the finals. It certainly isn't a requirement, but it does help committees to have the current firm's capabilities fresh in their minds while discussing competitors' offerings.

How do we select the winner?

By the final presentations, you have worked through a thorough, objective process to ensure the qualifications of each candidate and the strengths they bring to the table. The finals are your chance to evaluate the chemistry between your organization and the consulting team. It is also a great time to make sure the firm you select isn't just good on paper.

After hearing each presentation, we recommend using a blind voting system to rank the candidates in order of preference to kick off the discussion.



USE THE RIGHT TOOLS TO EXECUTE A SUCCESSFUL SEARCH PROJECT

An RFP process doesn't have to be a time-consuming, frustrating endeavor for you. Running successive searches for a wide variety of organizations, large and small, has helped us at Alpha Capital to develop a comprehensive process that can be executed in three to four months.

For the DIY organization, having the right people and processes in place at the outset saves a world of time and frustration. Good luck!

ABOUT ALPHA CAPITAL MANAGEMENT

Our firm was founded in 2006 by Brad Alford. We are located in Atlanta, GA. After spending nearly two decades at large investment firms, Brad wanted the freedom and flexibility to provide customized services to his clients. An independently owned advisory firm with an eleven-year history, Alpha Capital seeks to provide unbiased advice to our partners with our investment-oriented services and solutions.

CONSULTANT SEARCH SERVICES

Consultant Search Services (CSS) grew out of a client's need for independent advice and assistance in running the investment consultant search process for their \$100M institutional portfolio. Our principals have experience on both sides of the table, having served as consultants and institutional investors, and we are able to drive a better result for our clients in consultant and OCIO searches while simplifying the RFP process.