

# INVESTMENT CONSULTANT BENCHMARKING

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May 20, 2020



# Scope of Engagement

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- 1) Asset Allocation
- 2) Manager Selection
- 3) Ongoing Consulting Services
  - a) Performance reporting
  - b) Policy review
  - c) Quantitative and qualitative review of portfolio
  - d) Regulatory/Legal Updates
  - e) Education

# Asset Allocation

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## Quantitative

- Accuracy of Assumptions
  - Return
  - Risk
  - Correlation
- Target portfolio performance
  - Vs. target return
  - Vs. peer group

## Qualitative

- Quality of Model
  - Risk factors used
  - Liability impact
- Constraints

# Manager Selection

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## Quantitative

- Breadth of Coverage
- Performance of search finalists
- Performance of recommendations

## Qualitative

- Quality of coverage
- Research organization
- Implementation impact

# Other Consulting Services

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## Quantitative

- Occurrence
- Accuracy

## Qualitative

- Satisfaction
- Materials
- Information

# RFP Evaluation

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- Costs > Fees
    - Opportunity costs
    - Implementation costs
    - Risk
  - Scoring methodology for quantitative and qualitative items
  - Value of firm resources vs. client resources
    - Depth of knowledge for the plan
    - Shared knowledge from other clients
- Weights should reflect impact to plan

REQUEST FOR PROPOSAL  
CITY OF SPOKANE  
**SPOKANE EMPLOYEES' RETIREMENT SYSTEM**  
DEFINED BENEFIT PLAN  
INVESTMENT CONSULTING SERVICES

I. GENERAL INFORMATION

The Spokane Employees' Retirement System (SERS) is a defined benefit plan with approximately \$280 million in assets. The plan is currently 63.9% funded, using a 7.5% rate of return. SERS is focused on providing the promised benefits in a sustainable and affordable manner that will ensure it remains a valuable benefit to the employees of the City of Spokane.

A list of current money managers and the fund's target asset allocation is included at the end of this RFP along with the investment policy (see Appendix A).

II. SCOPE OF SERVICES

The Scope of Services will cover five years and include, but is not limited to, the following:

- A. Asset Allocation Study (to be conducted at the commencement of the engagement)
- B. Manager Searches
- C. Ongoing Consulting Services:
  - Quarterly and annual investment performance reports
  - Quarterly onsite performance presentations to the Board on the last Wednesday of February, May, and August and the first Wednesday of December.
  - Annual review of investment policies
  - Quantitative and qualitative analysis of investment strategies as needed
  - Occasional meetings with the investment committee, management, and staff
- D. Serve as a fiduciary to the plan.

III. SUBMISSION OF PROPOSAL

Proposals shall be delivered to the City no later than **Monday, June 29, 2020 at 5PM PDT**. The City reserves the right to disqualify any proposals received late. Proposals may be submitted electronically, but must also include five (5) hard copies of your proposal in a sealed envelope. Proposals should be addressed to:

Spokane Employees' Retirement System  
Proposal for SERS Investment Consulting Services  
808 West Spokane Falls Boulevard  
Suite 604  
Spokane, WA 99201

Electronic submissions can be submitted to [ptencick@spokanecity.org](mailto:ptencick@spokanecity.org).

## PROPOSAL QUESTIONS

### **I. OVERALL ORGANIZATION**

Note: When answering the following proposal questions, please include information about the office that will be servicing SERS and firm-wide information, if applicable (e.g. the servicing office has 10 consultants and the firm has 50).

- 1) Please provide a brief history of your firm.
- 2) What is the present ownership of your organization? Please be specific.
- 3) Besides consulting, what other investment-related services do you provide to clients?
- 4) Please provide a breakdown of your firm's revenue by line of business, specifically including investment consulting as a line item.
- 5) What proportion of clients engage another line of business outside of investment consulting services?
- 6) Conflicts of Interest
  - a) How does your firm manage conflicts of interest? What controls, policies, and procedures are in place to insure client interests come first?
  - b) Does your firm or any affiliate of your firm provide trust, investment management or securities brokerage services? If so, please explain.
  - c) Does your firm or any of its employees receive any form of compensation from any investment managers? If so, please explain.
  - d) Does your firm provide any client data to outside firms? Please note, this should include anonymized data, such as client surveys. If your firm provides data, please describe what is provided and what consideration is received.
  - e) Please provide a copy of your most recent form ADV parts I and II (only include in electronic submission).
- 7) What are your strategic growth initiatives?
- 8) Is the firm, including its directors, officers or employees party to any lawsuits, regulatory investigation, or governmental investigation? If so, please describe.

### **II. INVESTMENT CONSULTING**

The remainder of this questionnaire applies to your firm's investment consulting practice unless otherwise indicated.



- 1) What is the overall size of your consulting practice (number of clients, assets under advisement, type of plan)?
- 2) What is the average tenure of each client? How many engagements have been won and lost in each of the past three years?
- 3) What investment consulting services do you provide? Of these, which separate you from other consulting firms?
- 4) What is your experience with plans of our size (\$250M to \$500M)? What unique challenges do you feel plans of this size face and how would you address them?
- 5) What is your experience with plans that have a similar funded status (60-70% funded)? What unique challenges do you feel plans at this funded status face and how do you generally recommend addressing them?
- 6) Resources
  - a) What is the total size of your staff? How many of these are consultants? How many are support, and what support services do they provide?
  - b) What is the average number of clients per consultant (by count and by assets advised)? How many clients does the proposed lead consultant currently advise (by count and by assets advised)?
  - c) Please attach biographical information for the lead consultant and any other staff that will be working directly on the account.

### **III. CLIENTS**

- 1) Demographics
  - a) How many governmental defined benefit (DB) plans do you provide consulting services for? What are the total assets under advisement?
  - b) How many non-governmental DB plans do you provide consulting services for? What are the total assets under advisement?
  - c) How many (in total) institutional investment clients do you provide consulting services for? What are the total assets under advisement?
  - d) Please provide a representative list of your investment consulting clients.
- 2) References
  - a) Please provide three references. To the extent possible, include governmental defined benefit plans for which you provide consulting/performance measurement services. List the organization, contact name, address, e-mail and telephone number.

- b) Do you give SERS permission to contact other clients not specifically provided as references?
- 3) What would your clients say are your greatest strengths and weaknesses?

**IV. CONSULTING SERVICES**

1) Manager Selection

- a) Please provide an overview of your management selection process, including initial and ongoing due diligence practices. Is the process uniform across all assets classes? If not, please explain the differences.
- b) What are the criteria used to determine your recommend, watch, and/or terminate lists? How often are these lists reviewed?
- c) How have managers recommended to clients performed relative to their benchmark and peer group?
- d) Investment Manager Database

- i) Which database(s) do you use? Who supplies and verifies the data in the database(s)?
- ii) Please complete the table below. Investable managers should represent the number of managers that meet the firm’s minimum criteria for recommendation as described in item (b) above. Managers currently covering should represent the number of managers that the firm has conducted initial or ongoing due diligence on during the past 12 months. Managers on recommend list should represent the number of managers that have appeared as finalists in a manager search or are currently on a formal recommend list.

	<u>Total Managers in Database</u>	<u>Investable Managers</u>	<u>Managers Currently Covering</u>	<u>Managers on Recommend List</u>
<b>Equities (Long only)</b>				
(a) US				
(b) International				
(c) Emerging Markets				
(d) Global				
(e) Other (Please describe)				
<b>Fixed Income (Long only)</b>				
(a) US Core				
(b) US High Yield				
(c) US TIPS				
(d) International				
(e) Emerging Markets				

(f) Global				
(g) Other (Please describe)				
<b>Real Estate</b>				
(a) REITs				
(b) Private Real Estate				
(c) Other (Please describe)				
<b>Hedge Funds</b>				
(a) Long/Short				
(b) Absolute Return				
(c) Fund of Funds				
(d) Other (Please describe)				
<b>Alternatives</b>				
(a) Direct Private Equity				
(b) Private Equity Fund of Funds				
(c) Other (Please describe)				
<b>Other (Please describe)</b>				

## 2) Asset Allocation

- a) Please provide an overview of your asset allocation process.
- b) What methods are used to develop return, risk, and correlation assumptions?
- c) How have your return, risk and correlation assumptions compared to actual market performance?
- d) To what extent are risk factors beyond volatility used in creating your optimization models?
- e) How are the plan's liabilities incorporated into the model?
- f) What kind of sensitivity and/or scenario analysis is provided?
- g) How have your client's target portfolios performed relative their target rate of return and peers?
- h) What rebalancing strategies are recommended and how do they impact the asset allocation model?

## 3) Performance Measurement

- a) How frequently do you produce performance evaluation reports for your clients?
- b) What is the source of your performance data? How is it verified?

- c) At what point following quarter end are performance reports generally available?
- d) To what extent can your performance reports be customized to meet a particular client's needs?
- e) Please provide a sample performance report.
- 4) Are there any additional services that are included in a standard investment consultant engagement (e.g. client education, interim communications, access to research, etc.)?
- 5) How do you measure client outcomes as it relates to the investment consulting services provided?

## **V. FEES**

- 1) Please provide your proposed fee schedules.
- 2) To the extent your firm has agreed-upon retainer fees, what services are typically covered by the retainer? What services are outside the retainer and what are the associated fees for such services?
- 3) To what extent are the quoted fees variable (e.g. based on the number of investment managers, manager searches, Board presentations, etc.)?

## **VI. COVID-19**

- 1) What temporary policies and procedures have been put in place at your firm to address COVID-19? How have these impacted client interactions?
- 2) As a result of COVID-19, what permanent policies and procedures have been put in place, or are likely to be enacted, at your firm? How will these impact client interactions going forward?
- 3) Did your firm receive any financial assistance from federal, state, or local government related to COVID-19?
- 4) Please provide examples of client communications to plan sponsors related to COVID-19.
- 5) How did your firm's response to COVID-19 compare to instances of previous market turmoil (e.g. Great Financial Crisis)?

## **VII. OTHER (OPTIONAL)**

There are two additional benefit plans that currently engage an investment consultant. The City of Spokane offers its employees a 457 defined contribution plan and SERS administers a

closed defined benefit plan for Law Enforcement Officers and Firefighters (LEOFF). These plans are overseen by two separate and unique boards from that of SERS plan.

LEOFF Plan – A defined benefit plan that is closed to new entrants, and has \$24M in assets invested 100% in fixed income through a single separate account. The plan is only expected to require performance reporting services, but may conduct a manager search if performance requires.

457 Defined Contribution Plan – The plan has roughly 2,200 participants with investments totaling \$177M. The plans investment options include 10 target date funds, 24 mutual funds, and a self-directed brokerage window. The plan record keeper is ICMA-RC. The services the plan requires are performance reporting, plan design review, and manager searches, as necessary. Committee presentations are held on the same day as the SERS plan.

Currently, these two plans have engaged the same consultant as the SERS plan; however, there is no requirement for them to do so. If you are interested in providing these consulting services **in addition to** the SERS plan, please provide the information requested below. The information below is supplementary and the inclusion or exclusion of this section will not adversely impact your response to the SERS portion of the RFP.

- 1) What are the differences in the consulting and support staff that will service these plans?
- 2) How does your performance management process differ for DC plans?
- 3) How does your manager search process differ for DC plans?
- 4) What are the additional fees required to provide the required services for these plans?
- 5) Is there any additional information you would like us to consider regarding your ability to provide consulting services for these plans in addition to the SERS plan?

## INQUIRES

Inquiries and other communications about this Request for Proposals shall be through the Retirement Director. Direct communications with other management or elected officials may be grounds for rejecting a proposal unless permission is granted by the Retirement Director.

All inquires must be in writing. Inquiries received by 5PM PDT on Friday, June 5, 2020 will be answered and posted on the SERS website (<http://www.spokanesers.org/>) on Wednesday, June 10, 2020. Inquiries should be addressed to:

Spokane Employees' Retirement System  
Inquiries for SERS Investment Consulting Services  
808 West Spokane Falls Boulevard  
Suite 604, City Hall  
Spokane, WA 99201

Electronic inquiries can be submitted to [ptencick@spokanecity.org](mailto:ptencick@spokanecity.org)

## ADDITIONAL INFORMATION

### A. REJECTION OF PROPOSALS

The City reserves the right to reject any and all proposals and to waive informalities or irregularities in a proposal or in the proposal process. The City reserves the right to split or make the award in any manner deemed most advantageous to the City at its sole and exclusive discretion.

### B. PREPARATION OF PROPOSAL

The City shall not be liable for any costs incurred by a Proposer in preparing or submitting a proposal. Proposals should be prepared simply and economically, providing a straight-forward, concise description of the Proposer's capabilities to satisfy the City's requirements. Submitted materials become the property of the City and will not be returned. Submitted proposals constitute public records which are subject to review and copying by a person making an appropriate request for public record.

### C. PROPOSAL EVALUATION

The City does not intend to award a contract solely on the basis of price. Evaluation criteria will include but not be limited to:

1. Firm Resources
2. Skill of Assigned Personnel
3. Investment Consulting Processes
4. Potential Conflicts of Interest
5. Fees

### D. ORAL PRESENTATIONS

The City, at its sole discretion, may ask individual proposers to make oral presentations without charge to the City. Such presentations provide an opportunity for the proposer to clarify its proposal to insure a mutual understanding of its contents.

### E. GUARANTEE OF GOOD FAITH AND FIRM PRICE

Proposals shall remain in effect for a minimum of sixty (60) days from the submission deadline date unless extended by mutual consent.

## CONTRACT REQUIREMENTS

### A. INSURANCE

During the term of the contract, the firm shall maintain in force at its own expense, the following insurance coverages:

1. Worker's Compensation Insurance in compliance with RCW 51.12.020, which requires subject employers to provide workers' compensation coverage for all their subject workers.
2. General Liability Insurance on an occurrence basis, with a combined single limit, of not less than \$1,500,000 each occurrence for bodily injury and property damage. It shall include contractual liability coverage for the indemnity provided under the contract. It shall provide that the City, its officers, employees and agents are additional insureds but only with respect to the firm's services to be provided under the contract.
3. Automobile Liability Insurance with a combined single limit, or the equivalent, of not less than \$300,000 each accident for bodily injury and property damage, including coverage for owned, hired or non-owned vehicles.
4. Professional Liability Insurance with a combined single limit of not less than \$2,000,000 each claim, incident or occurrence. This is to cover damages caused by the error, omission, or negligent acts related to the professional services to be provided under the contract. The coverage must remain effect for at least three (3) year(s) after the contract is completed.

There shall be no cancellation, material change, reduction of limits or intent not to renew the insurance coverage(s) without 30 days written notice from the firm or its insurer(s) to the City;

As evidence of the insurance coverages required by the contract, the firm shall furnish acceptable insurance certificates to the City at the time the firm returns the signed contract. The certificate shall specify all of the parties who are additional insured, and will include applicable policy endorsements, the 30 day cancellation clause, and the deduction or retention level. Insuring companies or entities are subject to City acceptance. The firm shall be financially responsible for all pertinent deductibles, self-insured retentions, and/or self-insurance.

#### B. BUSINESS REGISTRATION REQUIREMENT

Section 8.01.070 of the Spokane Municipal Code states that no person may engage in business with the City without first having obtained a valid annual business registration. The firm shall be responsible for contacting the State of Washington Business License Services at <http://bls.dor.wa.gov> or (800) 451-7895 to obtain a business registration. If the firm does not believe it is required to obtain a business registration, it may contact the City's Taxes and Licenses Division at (509) 625-6070 to request an exemption status determination.

#### C. ANTI-KICKBACK

No officer or employee of the City of Spokane, having the power or duty to perform an official act or action related to this contract shall have or acquire any interest in the contract, or have solicited, accepted or granted a present or future gift, favor, service or other item of value from or to any person involved in the contract.