

EFFECTIVE OCIO OVERSIGHT

**The How and When of
Performing Searches**

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EXECUTIVE SUMMARY

An institution working through its board, investment and finance committees and staff has a significant challenge in meeting their fiduciary role and responsibilities in overseeing the selection and monitoring of their OCIO provider. This is becoming more difficult given the growth in the number of firms providing OCIO services and the complexity of their solutions.

There are different ways to proceed with a search to make this oversight process more effective. These include a full-blown **request for proposal (RFP)**, a shorter **request for information (RFI)** or choosing from amongst a **database of firms** a consultant has already done its due diligence on. Let's explore some of the features and benefits of these forms.

WHAT'S IMPORTANT HERE AND WHY?

We are faced with a decision whenever we come to the proverbial fork in the road. When an institution decides to move forward with an OCIO search, and after they have done the initial prep work, a plan for proceeding needs to be developed. The choice is not about taking the road less traveled, but rather the path that best fits the needs and timing of the institution. The different routes available include the following:

RFP

An RFP is the most comprehensive form of due diligence. It involves thoroughly gathering and analyzing information from multiple providers.

- **Extensive inquiry.** A full RFP involves a comprehensive examination of various providers. Inquiry involves the firm's size and business model, its people, its investment philosophy, portfolio construction methodology and depth of research, its servicing approach and administration services, and its likely transition plan. Of course, it also includes inquiries into the multiple levels of fees and seeks full transparency.
- **Recipients.** The RFP should be sent to a representative group of prospects who will provide a spectrum of services and approaches. At the same time, the number should be just large enough to allow for reasonable analysis of the replies without them each appearing too alike.
- **Finalists.** After the review of replies, a sub-list is brought in for finalist presentations. Effective finalist meetings are much more of a dialogue with healthy amounts of Q&A to dig deeper into what the firm is likely to deliver. With good analysis done in advance around the decision criteria and weightings, a firm can be readily selected.
- **Contracting.** This is the time to negotiate with the provider over services and fees. This can include performance-based fees, service guarantees and fees at-risk.
- **Timing.** Given the extensiveness of the RFP process, the process from initial information gathering to the selection of a firm and development of a transition plan can often take 3-6 months.

RFI

An RFI usually consists of a shorter solicitation of key information along with some sample work product.

An RFI can be used in a couple of ways to be a complement to or in lieu of an RFP.

- **With an RFP.** An RFI can be an initial step preceding an RFP. This is especially beneficial where an institution wants to cast a wide net in identifying potential fits. It's also useful when various parties involved in the process provide referrals to firms they work with that may be lesser known and the list of firms is growing. Figure an RFI solicitation can add a month or so to the RFP process.
- **Instead of an RFP.** Perhaps the institution wants to move more quickly and/or is willing to rely on a consultant's knowledge of the firms. Maybe the institution wants to more simply do some benchmarking of the existing provider's services and fees, but is otherwise willing to maintain the relationship. The institution can focus its inquiry to its key priorities and the review of the firms' recommendations and sample materials. Finalist meetings and contracting would follow, if desired. In this form, an RFI can be completed in 2-3 months.



Consultant Database

A consultant is likely to have a database of firms it has worked with. Equipped with a thorough understanding of the institution's goals, the consultant can select a few firms it believes provide a good fit. In this case, the opportunity to proceed in an RFI fashion with a short questionnaire, requesting samples of various materials, and proceeding with finalist presentations is more attainable. This will reduce the time, effort and expense of the search.

CASE STUDY / APPLICATION

PlanPILOT leads RFPs and RFIs. We also maintain a sizable database of firms we regularly perform due diligence on and utilize. Some practical tips we have found useful include these.

When and how many?

- We find the RFP is most beneficial when selecting a provider initially, or where there is a desire to make a change in provider, or where a search has not been done recently.
- We recommend doing a more formal RFP process every 5-10 years.
- An RFI is a useful tool for a shorter process or a more straight-forward benchmarking survey.
- We recommend doing some benchmarking every 3-5 years.
- We observe sending an RFP or RFI to about 5-7 firms balances the scope of the exercise with the practicality of gathering and assessing information.
- Similarly, we believe selecting 2-3 finalists is adequate.
- Fact is, the more firms that are included, the more difficult it becomes to differentiate between them.

We also utilize an online tool for RFPs and RFIs to provide an automated form to:

- **Ask and gather** information from the firms systematically,
- **Allow the firms to ask any questions** in a public forum so all firms can see the replies,
- Provide for the **persons involved in the decision-making to offer comments** and make their recommendations in a shared fashion, and
- Have this process **documented and stored**.

What information to gather?

- Of course, an **RFP or RFI** is going to ask a number of standard questions.
- Of potentially greater benefit is asking the firms to **provide samples of their work**. This includes a sample asset allocation and portfolio line-up based on the institution's information as shared, and a full description of all the fees that would be entailed. We want a clear picture of what to expect.
- It also includes **representative performance**, preferably a composite, versus benchmarks. Some firms will follow the industry standard Global Investment Performance Standards (GIPS).
- Other useful documents to gather include a **representative investment policy statement** and reporting.
- If available, we like to receive a link to a demo of their **online capabilities** again to see the information available and ease of use.

We find a well-defined process that gathers the most useful and representative information is likely going to produce the best outcomes.

CONCLUSION

There are different ways to proceed with an OCIO search to make the oversight process more effective for a given institution. Whether conducting a full-blown RFP, a shorter RFI or choosing from amongst a database of firms a consultant has already done its due diligence on, it is useful to carefully define the process that is most likely to assist the institution in its oversight and selection. This serves the institution to improve the management of its fiduciary roles and be the best stewards of its valuable assets.



Let PlanPILOT guide you through the time and effort-consuming process of selecting or evaluating an OCIO provider.

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