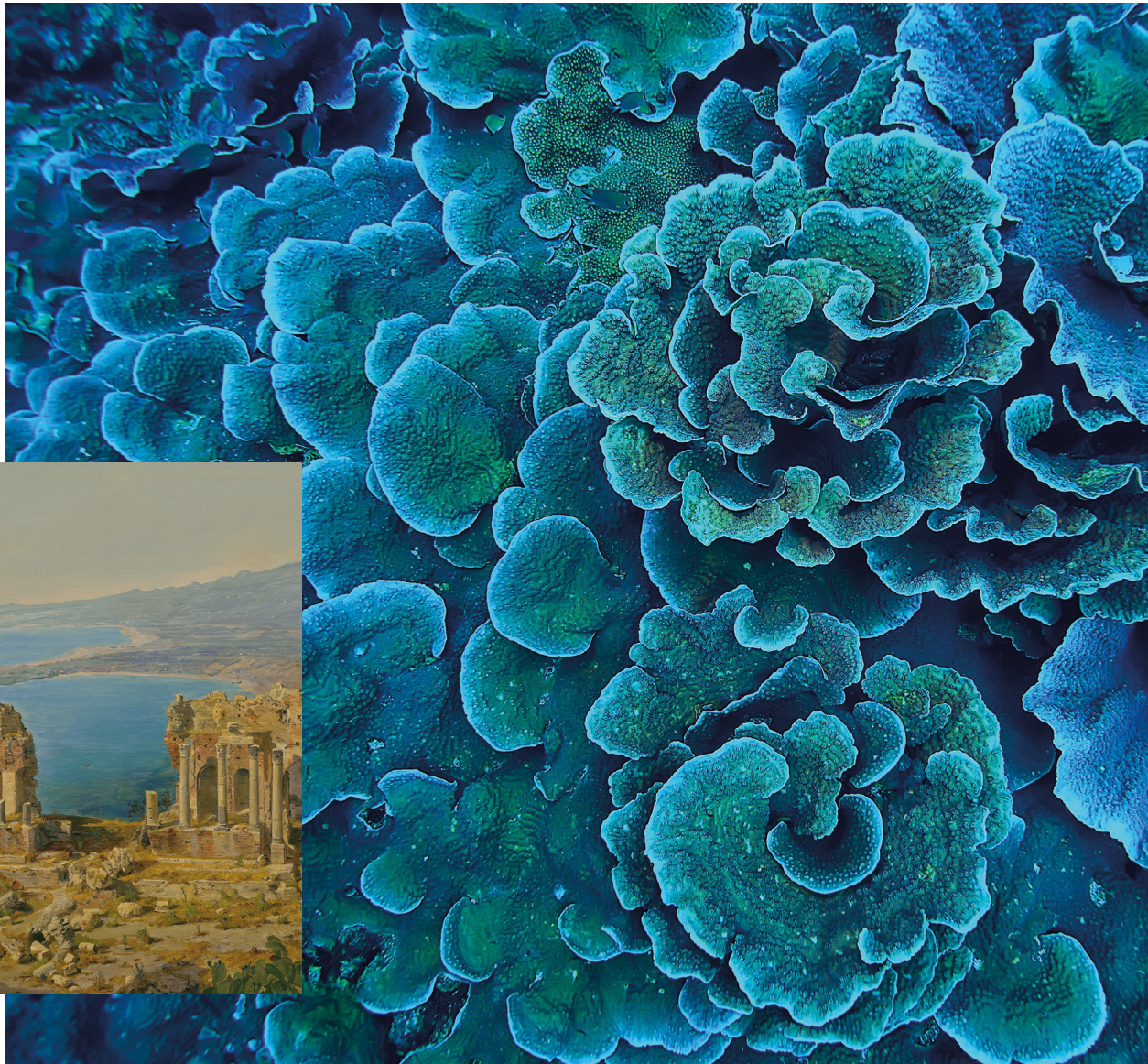




Wealth
Management

How to run an investment manager review process



| Forward-looking
| for generations

Julie Hutchison
Technical Director - Charities, LGT Wealth Management
 As someone who has previously worn a charity trustee and finance committee hat, I've been involved in the process of reviewing and appointing charity investment managers. Sitting on the other side of the table, part of my day job with LGT Wealth Management involves receiving invitations to tender from charities who are re-tendering their investment mandate. The procurement processes themselves, and the content of invitations to tender, also known as an ITT or requests for proposals (RFP), vary considerably. For trustees who may be new to how to run this kind of process, and how to run it well, this blog sets out a series of tips to help you in your forward planning.

- **Month 3** – give yourselves at least 2 weeks to consider responses, and compile your shortlist of investment managers you would like to meet. Give the shortlisted firms at least 3 weeks' notice that they have been shortlisted for the final stage.
- **Month 4** – presentations with shortlisted firms take place, and the investment manager review and selection process moves to completion.

This can be done fully online

Experience since 2020 has shown that all of the above steps can be completed online, whether by Zoom or MS Teams. The ability to 'share screen' in an online meeting offers one option for how material can be viewed. Trustees may want to ask for Powerpoint presentations to be sent beforehand, as some people prefer to work from two devices, enabling materials to be viewed on one screen and audio/visuals for the meeting being accessed on a second device. This also means trustees can choose to view materials in the size which suits them, enabling easier reading/viewing.

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Julie Hutchison, Technical Director - Charities

Ask questions which reflect what matters to your charity

I've seen procurement processes which do not involve any questions and simply invite a proposal in whatever form an investment manager wishes to choose. At the other end of the spectrum, I've seen invitations to tender with over 30 questions. The following list of headings for questions offers one approach, which can be further tailored to incorporate elements reflecting the needs of your charity:

1. Information about the investment firm.
2. Experience in managing investments for charity clients/charity sector expertise.

Prepare your timetable at the start

Give yourself enough time to plan your investment manager review process, from start to finish. Whether it's led by your board, finance committee, investment committee or other sub-group, it's wise to 'work backwards' in your planning, especially if your investment contract has a fixed end date. The practical actions here involve checking diaries and setting time aside for a date or dates when you anticipate you may be meeting charity investment managers you have shortlisted. An effective timeline might look something like this:

- **Month 1** – prepare your questions/invitation to tender (ITT). Plan ahead and hold diaries for the date or dates in month 4 when you anticipate holding meetings with the shortlisted charity investment managers.
- **Month 2** – issue your ITT to your longlist of firms, allowing at least 3 weeks for completion and submission. Your long list is likely to offer space for a range of investment firms with different styles and investment approaches to be included. For some charities, their longlist goes into double figures; for others, it's under ten. This document should also state the timetable you are working to, in particular drawing attention to the likely date or dates on which presentations are scheduled for. You may also wish to create a specific window at the start of this process where 'questions for clarification' can be submitted.

3. Biographies of key stakeholders that your charity would be interacting with.
4. The investment proposal.
5. The investment approach/philosophy of the investment firm.
6. Investment performance figures (typically we are asked for 1, 3 and 5 year figures – it is best to clearly state the time period for this, so you can compare like with like as at a specified date. Also make clear if the performance figures should be net of fee or not, again to enable comparisons).
7. How the investment firm approaches environmental, social and governance (ESG) matters and ethical screening options.
8. Service and reporting requirements.
9. Fee - you may want to ask for this as a Total Expense Ratio (TER) so that fees can be compared on an equivalent, transparent basis.

Documents to send with your invitation to tender

To minimise follow-up questions from investment managers seeking more clarity, it is useful to send additional information to accompany your invitation to tender:

- Your investment policy statement
- Your most recent set of accounts

If your charity does not yet have an investment policy statement, or perhaps it could do with being updated, it is worth mentioning this.

In the absence of an investment policy statement, you will need to set out your financial goals, explaining any particular level of income that you may need, whether you are in a position to take a total return approach, and whether you anticipate any large withdrawals in the first five years eg. to support a capital project. Your approach to risk is also important – to what extent can the charity withstand stock market volatility? An investment policy may include asset allocation ranges and performance comparators.

Plan your meetings

In scheduling your presentation meetings with shortlisted investment firms, it can be useful to space these at hourly intervals, with the meetings them-

selves lasting 45 minutes. This gives you time to briefly reflect on what you've heard, and also to prepare for the next meeting. Within the meeting timeslot, it's normal for a set time to be allocated to the presentation component (for example 15 or 20 minutes) with the remaining time for Q&A.

Consider using an evaluation grid

In assessing the written submissions from longlisted firms, and then confirming or adjusting gradings further at the presentation stage, it can be helpful to use an evaluation grid. This enables you to more readily assess and compare responses to each of the questions you have asked. You can devise your own approach here, but one evaluation method is set out below:

| | |
|---|--|
| 1 | Exceeds requirements |
| 2 | Meets requirements |
| 3 | Partially adequate – fails to meet requirements in some respects |
| 4 | Does not meet requirements |

Depending on what is important to your charity, you might also wish to apply a weighting to one or more of the questions, reflecting the relative importance of one or more areas to your overall decision. For example, if ethical screening is of particular importance to you, a higher score here could be weighted to count for more in your overall ranking.

Reaching your decision and giving feedback

The evaluation grid gives you a reference point when your committee or board meets to consider its decision. It may be that a sub-group is tasked with making a recommendation to the full board. Governance arrangements vary. The evaluation grid also enables you to give clearer feedback to those charity investment managers who were not selected.

While this is one approach to running an investment manager review process, there are a variety of ways this can be done – it all depends on your charity's individual needs. If you have any questions about investment manager reviews or would like more information, do get in touch at info-uk@lgt.com

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