



**Office of New York City Comptroller,  
Bureau of Asset Management**

**Request for Information:  
*Developing an RFP for Investment  
Analysis Services***

*June 15, 2018*

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## Executive Summary

PEI believes that to effectively implement the RFP for Investment Analysis Services, the Bureau of Asset Management may wish to evaluate a different structural approach to creating the RFP document and engaging in the RFP process. In PEI's experience, certain investment providers have demonstrated expertise in security-by-security analysis of various climate change and fossil fuels footprint while other investment providers and consultants have the ability to propagate this type of analysis across the entire portfolio. As a result, we are recommending a combined approach – using a general investment consultant (such as Portfolio Evaluations, Inc.) – in combination with a specialized ESG security analysis firm – which may achieve the optimal result for your program.

If selected as the general advisory consultant, our initial step would be to partner with or search for a specialized ESG/Climate Change/Fossil Fuel Divestment manager (such as Calvert, MSCI or BlackRock's ESG team) to research and provide scoring metrics for all the securities held by the Bureau and create a divestment and reinvestment methodology.

The second phase is that PEI, acting as the Consultant, would incorporate those findings and implement them across all portfolios. Specifically, the following suggested approach can be utilized:

- a. Consultant aggregates the findings of the divestment research and creates a restricted list of securities based on that analysis.
- b. Consultant distributes the restricted list of securities to all portfolio and investment managers that manage investment assets on behalf of the Bureau of Asset Management.
- c. Consultant works with the investment managers to develop a transition plan to divest of securities included in the restricted list.
- d. Consultant monitors divestment progress and updates the individual pension plan's investment guidelines/Investment Management Agreement to reflect the updated mandates.
- e. Consultant works with the individual portfolio investment managers to optimize portfolios to minimize any unintended consequences of removing certain securities from the portfolio and ensuring diversified across sectors and industries (that may be adjusted due to the divestment).
- f. (If necessary) Consultant to work with the Bureau of Asset Management to provide an updated portfolio-level and manager-level benchmarks to ensure proper performance measurement for all the investments.
- g. Consultant works with specialized manager and individual portfolio managers to create a re-investment plan and oversees reinvestment progress.

## General Information

1. Name and business address of responding party (if responding on behalf of a firm or organization, provide for that entity):

***Portfolio Evaluations, Inc. ("PEI")***

15 Independence Boulevard  
Warren, NJ 07059  
973-538-4347

2. Website address, if available:

***www.porteval.com***

3. Name, address, email address and phone number for single point of contact for all communications:

***Ed Landsman, elandsman@porteval.com, or Marcia Peters, CFA, mpeters@porteval.com, 973-538-4347***

4. Please briefly describe your occupational and professional status and background, expertise related to the issues in this RFI and any other relevant background information:

**Marcia Peters**, CFA, Chief Investment Officer, oversees the research investment strategy group at PEI. Her focus is on alternative asset class research, including hedge fund, private equity, and alpha enhancing strategies, and fund monitoring and evaluation. She also focuses on special projects such as investment fund searches, liability driven investment strategies, and asset allocation studies. Marcia will provide investment strategy support to the client relationship. Marcia is PEI's internal expert for investment portfolio strategy, helping to define client strategies and tailor solutions to meet their objectives.

Marcia graduated cum laude with a BSE in Chemical Engineering from the University of Pennsylvania. She also earned an MBA with high honors distinction from The Wharton School. Marcia previously worked at Goldman Sachs, where she specialized in alternative and derivative investments for pension funds, mutual funds, and foundations, and in the oil/petrochemical industry.

**Edward Landsman** works closely with plan sponsors and fiduciaries to properly identify, develop and implement an action plan to meet client needs. He has extensive experience with all aspects of fiduciary oversight including investment committee charters, investment policy statements, performance evaluation, vendor selection and fee benchmarking projects. His focus is on clients with combined DC and DB programs, and he is also a member of the firm's Defined Benefit Strategy Group.

Ed serves PEI with over fifteen years of experience in the investment industry. Previously, he was an equity trader specializing in NASDAQ listed securities. Ed was also a financial analyst at Salomon Brothers where he analyzed mortgage-backed fixed income securities. Ed is a cum laude graduate of Cornell University College of Engineering with a Bachelor of Engineering in Computer Science.

5. Please state whether the responder is able to provide the Investment Analysis Services, or a portion of such work, including legal fiduciary analysis services, and is likely to respond to an RFP that includes Investment Analysis Services. If yes, please respond to the questions in Attachment 1:

Portfolio Evaluations has extensive experience conducting RFP's for searches for investment managers and pension service providers. We are responding to this RFI to provide the Bureau of Asset Management ("Bureau") with some ideas and considerations when conducting the RFP.

- a. A complete list of all our professional services, including those services we can provide to satisfy the Investment Analysis Service included in the RFP:

PEI offers a full suite of investment services to our clients and has been assisting retirement plan committees in their fiduciary responsibilities for over twenty-five (25) years. We provide guidance on issues ranging from committee education, to structuring committee charters and investment policy statements, to redesigning fund lineups with the service providers.

#### **Investment Policy Statement Review and Revision**

PEI works with clients to establish an Investment Policy Statement (IPS). This exercise is one of due diligence and one necessary for fiduciary protection. The IPS is an integral document that defines the portfolio mission and objectives. It creates a set of procedural guidelines and limitations for investment management, budgeting, evaluation, and controls and outlines risk tolerance, liquidity requirements, legal and regulatory factors, and asset allocation structures. The Investment Policy Statement also creates a framework of fiduciary roles and responsibilities.

#### **Investment Committee Charter Review and Revision**

PEI will evaluate a client's Investment Committee Charter, which defines structure, roles, and responsibilities of such a committee and its members. The Charter should emphasize levels of

accountability, lines of authority, and responsibilities of the investment program decision makers as they relate to one another and to the Investment Policy Statement (IPS). PEI works with the client to establish or revise the Charter, thereby providing fiduciary protection and structured decision-making.

### **Performance Evaluation and Monitoring**

Effective and periodic performance evaluation and monitoring is critical. Our report documents the due diligence process and an analysis is made based on the standards set forth in the IPS. Since we use an unbiased and objective approach, we present information to guide the decision-making process in a clear and prudent manner, thus leading to outcomes that align with a client's long-term investment objectives.

### **Manager Search and Selection**

Quantitative and qualitative techniques are employed to arrive at a concise list of candidates. Knowledge of each client's investment objectives as well as knowledge of the universe of viable investment options is taken into consideration. The thoroughness of our due diligence process focuses on understanding how an investment manager will perform in different market environments. The integrity and effectiveness of our approach can identify key risks to help drive desired outcomes. Our guidance will create a path to make clear and prudent decisions.

### **TDF Glide Path Methodology Review**

Target date funds (TDFs) are complex products requiring a layered evaluation process. PEI conducts comprehensive due diligence on over thirty TDF providers to generate proprietary glide path comparison analytics. This then enables us to provide clients with a true apples-to-apples comparison of the TDF universe. The purpose of this report is to provide an objective evaluation of a client's target date series to determine glide path suitability, and to serve as documentation of a plan committee's prudent due diligence process for monitoring their Qualified Default Investment Alternative (QDIA) option.

### **Fee Benchmarking Study**

Our plan fee benchmarking analysis employs a customized approach to assess total fees paid to a client's retirement plan investment manager(s) and plan service provider(s). PEI has been engaged in fee analysis projects for clients for many years before fee transparency received industry and regulatory attention that it now rightfully receives. PEI will certify that plan fees are reasonable. PEI's fiduciary processes can ensure that the duties set forth by ERISA and other governmental organizations are carried out, thus improving fiduciary protection.

### **Vendor Search and Selection**

PEI understands that an effective service provider search evaluates all functional areas of plan servicing including recordkeeping, plan sponsor services, trustee services, conversion, communication/participant education, compliance services, as well as investment services. PEI actively conducts due diligence on all the key retirement plan service providers in the industry. We understand recordkeepers are not all the same. We use this knowledge to efficiently develop a brief list of possible candidates to meet the specific needs of the client.

### **Fiduciary Education**

Proper fiduciary education provides knowledge and awareness to fiduciaries on how to best meet their roles and responsibilities. PEI's independence provides a vantage point to ensure that the duties set forth by ERISA and other governmental organizations are carried out and that fiduciaries are protected. PEI can provide stand-alone education or work with outside counsel. We use various forms of media to deliver these messages (presentations, white papers, newsletters, email alerts, and reports). This process will assure that decisions are made in a responsible and ethical manner.

### **Fiduciary Process Grid**

PEI provides our clients with a proprietary Fiduciary Process Grid, a checklist-style document indicating when regulatory and governance obligations were last met, while providing tentative target dates for next implementation. This Grid helps defined benefit plan committees remain on track to effectively executing their plan programs, while maintaining fiduciary compliance with regulatory obligations.

### **Report Executive Summary**

PEI includes a top-level Executive Summary with our performance reports, which outlines key areas requiring a committee's attention (e.g., new regulations, investment manager events, underperforming funds). We utilize this summary to make the most of our clients' time by making plan review meetings efficient and productive.

### **Pension De-Risking**

PEI creates a roadmap to facilitate the de-risking discussion among a Plan's Investment Manager, Plan Actuary, the Finance and Benefits Department, the Investment Sub-Committee, and others. PEI works with clients to develop a plan of action as a plan's funded status continues to improve, and plan assets can be more aligned with the profile of the liabilities. Similarly, PEI can introduce the proprietary PEI Pension Fiduciary Process Roadmap, which furthers the discussion on Plan de-risking.

### **Lump Sum Windows**

PEI has worked with several clients, to provide investment related services leading up to and during a lump sum window. PEI has been part of a team, along with our client's actuarial support and plan administrator, providing input into liquidity and asset de-risking strategies. PEI has provided extensive guidance on multiple levels, including: assumption setting for financial and market impact of the lump sum window, participant communication strategy, evaluating costs versus benefits, defining success metrics for the lump sum window, and asset liquidation strategy. Furthermore, PEI works with its clients to determine and refine the post-execution strategy. Lastly, PEI has assisted clients in identifying and coordinating the right set of vendors to execute pension de-risking steps in the optimal and most cost-effective manner.

### **Plan Terminations**

When setting the glide path toward termination (sometimes in the form of a customized LDI portfolio), we work with a client's actuary to update/review the plan's actuarial valuation and assessment and assist with assessing additional de-risking steps for both the assets and the liabilities.

### **OCIO Evaluation**

For over a decade, PEI has evaluated and monitored Outsourced Chief Investment Officers (OCIOs), developing a robust database of discretionary managers in the process. This proprietary system allows us to assist clients during discretionary manager searches, and then evaluate and monitor their managers versus an applicable peer universe following the initial engagement. By remaining in regular contact with the leading industry OCIO providers, we can integrate valuable market intelligence across service offerings, performance histories, and fee structures into our comparative analysis.

PEI maintains complete independence throughout this process. As a firm, we have chosen to opt out of providing OCIO services so that we may better serve our clients with their fiduciary oversight responsibilities. This level of independence provides all parties (the client, PEI, and the OCIO) with a certain comfort level that everyone's best interests are in mind. For example, when reviewing a client's discretionary manager, we are not looking to unseat the incumbent with our own investment team, nor are we interested in uncovering their proprietary secrets for our own use. Not only does this alleviate conflict-of-interest concerns, but it also enables us to conduct a more thorough

evaluation of the discretionary management team (who is not inhibited by undergoing a review by a direct competitor).

When conducting discretionary manager reviews, we look to bridge the information and understanding gaps that can exist between an investment committee and their third-party OCIO. This results in a discretionary manager search, evaluation, or ongoing review that is carefully constructed to meet each client's unique needs. By putting our clients' interests first, we are ultimately able to help their investment committees build stronger outsourced relationships and better investment programs.

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### **Special Projects**

PEI can serve your other plan-related needs. Our experienced team members can assist in meeting your objectives that fall outside of the scope of traditional projects.

We also provide several supplementary services, including Meeting Agenda and Minutes, Investment Alerts and Regulatory Updates, Plan Statistics Benchmarking, Participant Education Oversight and Educational Group Meetings, Vendor Contract Evaluation, Service Provider Issue Resolution, Investment Menu Design and Review, Plan Fee Assessment, Plan Fee Education, Investment Manager Fee Benchmarking, and QDIA Evaluation.

#### **b. Sources of Income and Estimated Fees:**

PEI does not receive any compensation from third parties in connection with services provided. We receive no compensation of any kind, direct or indirect, from any individuals, investment managers, broker-dealers, recordkeeping vendors or other organizations outside of our clientele; 100% of our revenue is invoiced to and paid by our clients for investment advisory services. Our advisory fees are set on a per client basis according to the scope of services we are offering.

## **Information Requested Regarding the RFP and Investment Analysis Services**

1. What specific areas, factors, risks and impacts should an RFP consider in order enable selection of a provider or providers that can best conduct comprehensive and in-depth Investment Analysis Services?

PEI's vendor RFP practice averages 25 years' experience in service provider RFI and RFP projects, as well as other retirement plan projects as listed above. Our Pension Solutions and Retirement Plans Consulting Groups are devoted to evaluating investment and administrative functions of plan related service providers (such as investment managers).

When conducting an RFP, we leverage our intellectual capital and robust consulting tools to lead plan sponsors through the service provider search process from initial proposal development to final comparative analysis, including conversion management assistance (when requested).



Our RFP's are customized to each client's specific needs by assessing key areas of plan management. Once the RFP has been drafted, we then use this information to pre-screen service providers and identify those that match the client's plan-type, service requirements and cost model, essentially narrowing down the service provider universe by ensuring only vendors with applicable services and competitive fee structures are included.

Once the proposals have been formally returned by the service providers, all data is aggregated, analyzed, and interpreted into an easily accessible report.

Our evaluation is then presented to the client for review in a succinct comparative report. While our service provider report does include numerous data points, its comprehensiveness is not merely a collection of static data, but rather, it encompasses frequent PEI site visits conducted to evaluate service provider resources and meet senior staff members.

We have ongoing relationships with these organizations and work directly with their senior management during critical stages of the search process, including fee negotiations. Furthermore, over the course of our twenty-five-year history, we have implemented a process that allows us to evaluate providers on behalf of our clients while also utilizing those same clients as a resource in those evaluations. Our client base provides constant vendor feedback, which is a ground level view of each provider's service effectiveness as actually seen by the client and not just on paper.

Following our review of the candidates with a client's investment committee, finalists are selected to present an overview of their capabilities. During this time, we continue to interpret the information provided to assist with the final selection of an optimal provider. Finally, once a service provider selection is made, we then work with the client to finalize the investment lineup and assist with contract negotiations, including fee agreements and performance standards, when appropriate.

## 2. Important topics and issues to address in the divestment manager search process:

Procedurally to ensure the best possible result, PEI recommends the Bureau form a committee to discuss objectives of the RFP process and specific goals and outcomes that indicate success. The committee should review the required services that will be requested in the RFP and identify all asset pools included in the study. In addition, this committee should develop a timeline, not only for the RFP process but also for the post-RFP implementation. The budget for the RFP process, and committee member's roles and responsibilities during the RFP process (for example, who is the main person responsible for the RFP process, who is responsible for answering questions, etc.) should be addressed. At this point, additional internal support should also be identified. Finally, an attachment to the RFP should be assembled which includes more detailed information about current investments and investment policy, investment advisors, and the committee's goals and objectives of the RFP process.

In developing the RFP, we propose the following list to guide the Bureau when formulating questions:

- Service Provider Experience and Expertise
  - Primary contact name, proposed team, tenure, experience, and credentials
  - Team experience with divestment issues and fossil fuel divestment in particular
  - Firm background, history, ownership, and compliance to regulatory requirements

- Broad scope of services offered and alignment of services to the project mission
- Typical clients, assets under advisory, average client size, and client turnover
- Examples of similar projects (with client list or contact names for reference)
- Bonding or insurance coverage
- Level of industry independence and how fees are earned (through client project billing, advisory services, commissions, etc.)
- Data security, disaster recovery, and business succession plans
- Project Specific Expertise
  - Recommended implementation process and typical timeline following project engagement
  - Specific technology and tools that will be utilized for this project
  - How investments and portfolios will be analyzed, and risk measured, especially for fossil fuel exposure and carbon footprint analysis
  - Research capabilities and support, especially as it relates to fossil fuel divestment
  - Experience in evaluating reinvestment opportunities in clean technology (and specific areas of expertise such as power generation)
  - Benchmarking and monitoring project success
- Client Servicing
  - Interaction with clients
  - Information sharing and procedures for recommendations
  - Reporting and customization, including online dashboards
  - Level of accepted fiduciary responsibility and avoidance of conflicts of interest
  - Type of documentation required for project engagement
- Specific Divestment Analysis, Implementation, and Insight
  - Given information about current investments, how would the investments be reviewed and analyzed?
  - What is the detailed project-specific timeline from engagement to reinvestment?
  - What are the important evaluation criteria and their rankings?
  - What are the obvious, high-level issues that need to be addressed immediately?
  - What are the more complex, detailed issues that still need to be worked out?
  - What additional clarification is required?
- Fees
  - All-in fee and breakdown by specific advisory services offered
  - Level and timeframe for fee guarantee (if available)
  - Other fee considerations especially as related to the asset level or changes in project scope