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YourQ&A

How Should Managers Pursue an RFP?

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YourQ&A is your opportunity to get your questions answered by industry leaders.

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Q: What is the top question that asset management firms should ask themselves before deciding to pursue a search? How can distribution executives make better decisions about which RFPs to pursue and how to allocate their team's limited resources?

A: Before responding to an RFP, the most important question a manager can ask is how thoroughly it understands the potential client. All other questions are secondary. An asset manager's salespeople and marketers understand their own product and presumably what makes it great. Beyond that, there are obvious starting points to understanding an institutional client and whether that client's wants and needs align with any of the manager's investment products or strategies.

Before pursuing a search by responding to an RFP, distribution executives should ask themselves: What is the client's plan type? What is the total size of the asset base? What is the mandate – and what is the mandate size?

All of these questions are important for managers to answer and will help a firm decide whether a mandate would be a good fit. Managers are better positioned overall if they understand these fundamental questions before an introductory meeting with an institutional client or its consultant.

However, prior to the initial face-to-face meeting, a talented marketer will ask questions that go beyond the merely descriptive, such as: What other managers exist in the portfolio? Marketers should find out how the marketed product might fit into the client's broader manager structure or strategic asset allocation. They should find out how the product, with all its inherent strengths, balances the rest of the portfolio. How might the excess return stream that this product delivers offset the excess returns delivered in the rest of the portfolio?

Marketers should figure out how the manager's product, which might add risk in isolation, might subtract risk from the specific client's broader portfolio. Distribution executives should gauge whether the client has a risk budget or a watch-list policy, as well as how the client will benchmark the product.

Having a clear understanding of the client portfolio's rationale for investing in the firm's product, rather than just the rationale for investing in the product on its own merits, pays great dividends. Consider that however spectacular it is, no investment product sells itself. To have a product actually implemented in a client portfolio means making room for it, which means that a portfolio-level rationale for the product is essential.

For a manager to attain this level of client-specific understanding is a tall order in today's world of institutional investing, where the distance between the marketer and useful information about an institution can be substantial. In the case of a typical client with a consultant, the manager is separated by at least five or six degrees.

First, the manager has to populate a database, and then present the product to a junior-level analyst in a consultant's manager research department. The manager must then rely on that person to persuade their senior researcher that the product is worthy of recommendation; then, the senior researcher will hopefully persuade a generalist consultant that the product is worthy. That generalist consultant will consider the client's portfolio when evaluating the product, and finally present the manager's product to the client.

This process suits many goals. However, it makes it difficult to communicate the most critical information necessary to building a potential manager/client relationship, for both the manager and the client.

A clear understanding of the institutional client not only makes the manager's job of marketing an investment product easier, but it should also eliminate what consultants might call "bad fits" in a portfolio.

For example, let's take a hypothetical manager marketing a brilliant but concentrated strategy that has a proven track record of excess return, but a 10% tracking error to the client's benchmark. The question of whether the client uses a watch list that mandates reviews after three years of underperformance is critical in this case. After all, having a client terminate a good manager at the wrong time is not good for anyone – the client, the consultant or the manager.

Considering the ways in which a manager might exit the portfolio in the future provides excellent insight into whether the manager should enter the portfolio in the first place.

It is hard work for a manager to match an investment product to a client – but it becomes easier to the degree that managers can see the process as less about making a sale and more about creating a partnership. Thorough research specific to a potential institutional client's needs is the necessary first step in the creation of that partnership.

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