FUNDfire

A Financial Times Service

Shadow Searches Unlikely to Kill the RFP

By Raquel Pichardo-Allison

September 2, 2014

The streams of data now available about asset managers may have the potential to make the traditional request for proposal model obsolete, but industry watchers say investors are not ready to ditch their tried and true search processes just yet.

Databases increasingly drive manager searches as institutional investors grow ever more dependent on using them to weed out prospective managers at earlier and earlier stages of the search process.

But some say a cultural shift would be needed, particularly in the public fund space, before RFPs completely become a thing of the past.

A July report by Cerulli Associates showed institutional investors and consultants now often bypass the open call for proposals and instead prioritize third-party database searches to create an internal short list of managers, or "shadow searches." Only a select few will then receive an invitation to submit an RFP.

Some observers say the depth and breadth of information now available through databases like eVestment could supplant the need for a more open RFP process. "It seems to be the logical endpoint," says Janie Kass, managing director at consulting firm Margolis/Kass Advisors. The databases reflect the fact that there's more information available, and that there's an environment "where the buyer can be in the driver's seat. As long as the buyer has knowledge, they really don't need as many people responding to an RFP. It's just creating extra work," she says.

Rich Donnellan, product manager of research at eVestment, agrees.

"We can see this, but it's probably pretty far down the road. There's a lot of buy-in necessary. It's a big change for the industry and for people used to these traditional RFPs," says Donnellan. "The infrastructure is there with consultant databases collecting this much information, but in the near-term we'll still see people issuing the traditional RFP."

A recent survey of *FundFire* readers shows just how divided the industry is on the fate of the RFP. When asked if databases will completely kill the traditional RFP, only 7.2% answered with a resounding 'yes.' Some 45.3% gave a more tempered response saying databases would kill the RFP for only some mandates, while 47.4% responded, 'never.' The results are as of Wednesday afternoon, based on 192 votes.

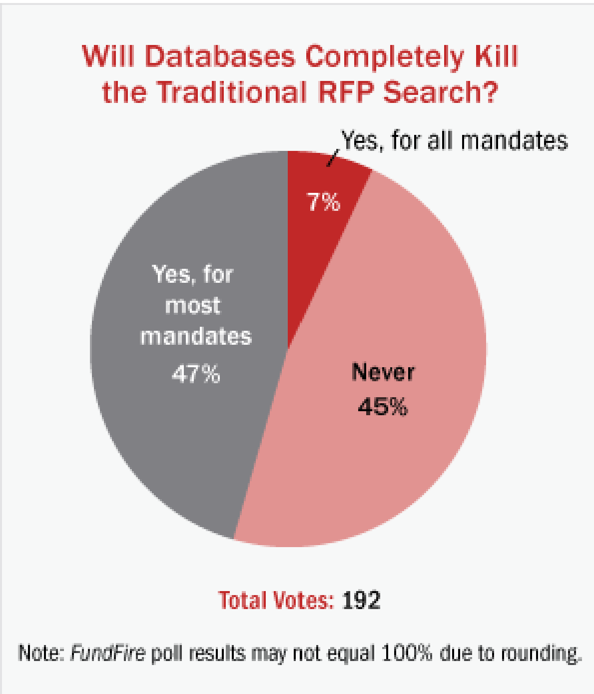
When it comes to the manager search process, databases have their limitations.

"The data is important, but there are so many aspects to a search. We could never quantify all the aspects that go into making a good decision. I think we're a long way from writing that algorithm," says Michael Rosen, principal and CIO at consultant Angeles Investment Advisors.

He says factors like the quality of the organization and the people or the firm's culture can't be quantified.

"The distinction between mediocrity and superiority can often be pretty gray," he says. And there are other obstacles keeping database searches from supplanting RFPs. For example, an open RFP process is sometimes written into the bylaws for public pension funds, says Kass.

However, that doesn't keep public funds from using data to make their search process more efficient. More and more investors are asking managers to submit data to eVestment in order to be considered for the search, says Donnellan.



The biggest driver of change for the RFP process has been, and will continue to be, the need to make the search process more efficient, Rosen says. Twenty years ago, an open call for proposals would have been common. But now, most public funds will set minimum requirements a manager has to meet in order to qualify to submit a proposal, he says.

"For our public fund clients there is still a formal search process where we set certain criteria for assets including track records, performance or risk. We then screen the database and invite anyone who meets the criteria to apply," he says.

For smaller entities, the outlook is different.

The majority of Angeles' clients are endowments and foundations and in that world, Rosen says, "there hasn't been a traditional RFP process in 10 years." For those clients, Angeles advisors can either make a recommendation on who to hire, or they've been given discretion to choose.

He says sifting through data is one of the ways Angeles' team narrows down potential candidates, as well as their personal knowledge of the firm and its staff.

And with data scouring often becoming the initial step in the search process, the need to have accurate information, uploaded in a timely manner and displaying strong performance figures has become vital for asset managers, adds Kass.

"It's just a much better version of what used to happen where so-and-so of Firm A played golf and had a good relationship with the prospect. When the RFP came out…they were in a good position," says Kass. "Now instead of being in a good position because you had the most meals or golf, that person is with the firm that got screened in for sound, logical reasons."