Considering an Investment RFP?

A Practical Starting Guide for Nonprofits, Foundations, and Endowments

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For many nonprofit organizations, deciding to review an investment provider is much easier than figuring out how to actually do it.

Large institutions may have investment offices, dedicated staff, and established processes for conducting searches. Small and midsize foundations, endowments, associations, and other nonprofit organizations often do not. Investment oversight may instead fall to a chief financial officer (CFO) or executive director whose responsibilities extend far beyond investments, or to a board or investment committee made up largely of volunteers.

A thoughtful request for proposal (RFP) can help an organization define its needs, identify appropriate candidates, compare them consistently, and document the basis for selecting an investment partner.

Where Do We Start?

Who should run the process? Which firms should participate? What should the organization ask, and how can different providers be compared?

There is no single RFP process that is right for every nonprofit. This guide organizes the decisions into a clear sequence that a board, committee, working group, or search consultant can use.

01 · THE REASON

First, Determine Why You Are Considering an RFP

Before writing questions or identifying firms, step back and define why the organization is considering a search.

- The board would like to periodically review its relationship with the incumbent provider to ensure it continues to receive appropriate value for the fees paid.
- Investment results, service, reporting, or communication have prompted questions.
- The organization may have outgrown its current service model and could benefit from more comprehensive guidance and support to address its evolving governance, investment, liquidity, spending, and risk management needs.
- The board wants to validate that the existing arrangement remains competitive, effective, and aligned with what the board considers current best practices.
- Staff or committee members have changed and the organization wants to reconsider how investment responsibilities are divided.
- The investment committee is spending more time on implementation than it would like.
- The organization’s circumstances or investment pools have changed, creating the need for a new investment framework.
- The organization is considering moving from traditional consulting or advisory services to an outsourced chief investment officer, or OCIO, arrangement.

An RFP does not necessarily begin with the conclusion that the organization needs a new provider. It can also create a structured opportunity to define what the organization needs from its investment relationship and compare available alternatives.

Before Searching for Firms, Define What You Need

In our view, a key step happens before the RFP is ever distributed. Spend some time discussing your organization's investment program.

- What is the purpose of these assets?
- What is the expected investment horizon for these funds: short-term (less than 5 years), intermediate-term (5–10 years), or long-term/in perpetuity?
- What does the organization expect the portfolio to accomplish?
- What is the spending policy?
- How much liquidity does the organization need?
- What risks concern the board most?
- Are there donor restrictions, legacy assets, or other constraints?
- Does the organization have mission-related investment considerations?
- How much investment expertise and staff capacity are available internally?
- Which decisions does the board or investment committee want to retain?
- Which responsibilities would it prefer to delegate?
- What type of reporting and education would make the committee more effective?

If the organization is considering different service models, including both traditional investment consulting and OCIO arrangements, in our view, it is generally a best practice to first establish the governance structure and level of delegation the organization wants. Otherwise, the committee may find itself simultaneously deciding what type of investment relationship it wants and which provider it prefers. Separating those two decisions can make the RFP process clearer and the proposals easier to compare.

> *Define the job before interviewing candidates for it.*

Who Should Manage the RFP?

This is often one of the first challenges for a smaller organization. There are several workable approaches, and an organization should choose one that reflects its available staff, board expertise, budget, and complexity.

Option 1: Have the Board or Investment Committee Manage the Search

Some organizations conduct the process themselves. A board or committee can establish the objectives, develop the RFP, identify prospective firms, review responses, conduct interviews, check references, and recommend a selection.

This can work particularly well when the organization has knowledgeable committee members and sufficient time to devote to the process. It also gives committee members direct exposure to prospective providers from the beginning.

The challenge is capacity. Investment committee members are often volunteers, and staff may already have full-time responsibilities unrelated to investment management. Comparing investment firms also requires understanding differences in service models, investment approaches, performance, fees, conflicts, and levels of delegation.

A committee conducting its own search should therefore establish a disciplined process in advance rather than allowing each member to evaluate proposals differently.

Option 2: Form a Small RFP Working Group

The entire board does not necessarily need to manage every detail. A practical alternative is to establish a smaller working group consisting of, for example, the CFO or executive director and several investment or finance committee members.

The working group can handle the detailed work, coordinate communications with prospective providers, and bring significant decisions and its ultimate recommendation back to the full committee or board.

This approach can make a self-managed search more manageable while preserving appropriate organizational oversight.

Option 3: Hire an Investment or OCIO Search Consultant

Organizations without the time, resources, or experience to conduct the search themselves may choose to engage an independent search consultant.

Depending on the scope of the engagement, a search consultant may assist with:

- Defining the scope of the search
- Identifying potential providers
- Developing the RFP
- Coordinating communication with candidates
- Organizing and comparing responses
- Evaluating fees and service models
- Coordinating finalist presentations
- Conducting or supporting reference checks and due diligence
- Documenting the selection process

There is an additional cost to this approach, so organizations should understand the consultant's scope, fees, experience, methodology, and potential conflicts of interest. It is also worth asking how the consultant builds the universe of potential providers and whether certain firms or business models may be excluded from consideration.

For an organization conducting its first institutional investment search, outside assistance can be particularly useful when no one internally has the time or experience to manage the process.

Option 4: Use Outside Assistance Selectively

There is also a middle ground. An organization might manage the RFP itself but bring in outside expertise for particular portions of the process. For example, it could seek assistance developing RFP questions, evaluating fees, conducting specialized due diligence, or reviewing contracts.

The important point is that an organization does not need a large internal investment office to run a thoughtful process. It does need to decide who is responsible for managing that process and how important decisions will be made.

How Do We Know Which Firms to Invite?

This is an especially common challenge for smaller nonprofits. The organization may know its incumbent provider and perhaps one or two recognizable investment firms, but have little sense of the broader market. That should not prevent an organization from starting a search.

Ask Your Professional Network

Board members, investment committee members, executives, attorneys, accountants, auditors, and leaders at other nonprofit organizations can be useful sources of introductions. Consider asking peer organizations:

- Who manages or advises your investment portfolio?
- What type of service model do you use?
- Have you recently conducted an investment or OCIO search?
- Which types of providers did you consider?
- What did you learn from the search process?

Networks can be particularly useful for discovering investment providers with experience serving organizations of similar size and complexity.

But referrals should be a starting point, not the selection process itself. A firm that works well for a large university endowment may not necessarily offer the right service model for a smaller foundation, association, religious organization, or operating nonprofit.

Likewise, a board member’s personal investment relationship with a particular firm does not necessarily mean that firm is the right fit for an institutional portfolio.

Use Early Conversations to Understand the Market

Once several potential candidates have been identified, preliminary conversations can help the organization understand the range of available providers and service models.

Organizations can ask firms about the types of nonprofit clients they typically serve, minimum portfolio sizes, available service models, and the types of organizations for which their approach generally works best. These conversations can help the committee learn the market before finalizing the participant list.

Engage a Search Consultant

Identifying an appropriate provider universe is one of the areas where an independent search consultant may add value, particularly when an organization has limited familiarity with the institutional investment marketplace.

The organization should still understand how candidates were identified and why particular firms were included or excluded.

Conduct Independent Research

Organizations can also research providers directly. At this stage, do not simply look for the largest or best-known firms. Look for evidence that the provider serves organizations with needs resembling yours. Initial screening questions may include:

- Does the firm work with nonprofits, foundations, or endowments?
- Does it serve organizations approximately comparable to ours in size and complexity?
- Is there a minimum portfolio size?
- Does the firm provide advisory services, OCIO services, or both?
- Which investment and administrative responsibilities can it assume?
- Does its approach accommodate our organization’s restrictions or special circumstances?
- Can it provide the reporting, education, and governance support our board needs?

There is no single correct number of firms to invite. The goal should be to develop a sufficiently broad but manageable group of qualified candidates. For an organization with limited staff or volunteer committee resources, reviewing a smaller group of well-qualified providers may be considerably more productive than sending an RFP to a lengthy list of firms simply to create more competition.

What Information Should We Give the Firms?

Once prospective firms have been identified, give each candidate enough information to understand the assignment. Where applicable, the RFP package might include:

- The organization’s background and mission
- Approximate portfolio size and purpose
- Investment Policy Statement
- Current asset allocation
- Current investment managers or funds
- Spending policy
- Liquidity requirements
- Relevant restrictions
- Current governance structure
- Current service arrangement
- Reporting needs
- The scope of services being requested
- The organization’s anticipated selection process

We believe it is a best practice to provide each candidate with reasonably consistent information and ask firms to respond to a common set of questions. Doing so makes proposals easier for the committee to compare. If certain information is confidential, the organization can determine what is necessary during the initial stage and what can appropriately be supplied later in the process.

What Should the RFP Ask?

A useful RFP should help the committee understand what it would actually be like to work with the firm, not merely produce a collection of statistics about it. Consider organizing questions into several areas.

Organization and Experience

Ask about the firm, ownership structure, relevant institutional experience, types of clients served, and experience working with organizations similar to yours. Rather than focusing solely on the size of the provider, consider whether the organization would be a meaningful client within the provider's service model.

People

Find out who would actually work with your organization. Ask who leads the relationship, who makes investment decisions, who will attend committee meetings, and whether those people are the same individuals participating in the RFP process.

Investment Approach

Ask candidates to explain, in understandable language:

- How they develop investment objectives
- How portfolios are constructed
- How asset allocation decisions are made
- How investments and managers are researched and selected
- How portfolios are monitored
- How and when portfolios are rebalanced
- How liquidity and spending requirements are incorporated
- How risk is evaluated

Governance and Delegation

This area is particularly important in an OCIO search. Ask exactly which decisions the investment committee retains and which decisions the provider assumes. The committee should understand how asset allocation, manager hiring and termination, rebalancing, cash management, and other investment decisions will be handled.

Performance

Request relevant performance information, but understand what you are comparing. Historical performance should not be viewed in isolation from the strategy, benchmark, risk, asset allocation, fees, and circumstances associated with the results. Most importantly, avoid turning the RFP into a contest over which provider presents the most attractive historical return.

Reporting and Committee Support

Request sample reports.

Then ask a simple question: Can committee members who are not investment professionals understand them? Consider how the firm communicates investment results, portfolio changes, fees, risk, and progress toward the organization's objectives. Also consider how much investment education and governance support the committee needs.

Fees and Potential Conflicts

Ask each candidate to explain its compensation clearly.

The objective should be to understand not only the provider's quoted advisory or OCIO fee, but also other investment expenses associated with the proposed portfolio and any additional ways the provider or its affiliates may receive compensation.

Comparing fees can be difficult when providers structure or present costs differently. In our view, it is a best practice to try to place competing proposals on a reasonably consistent basis so the committee can understand the anticipated total cost of each proposed relationship, as well as material differences in what is included.

Transition

Finally, ask a very practical question:

> *If we hire you, what happens next?*

Candidates should be prepared to explain how they would evaluate the existing portfolio and approach a transition to the proposed investment structure.

07 · THE SCORECARD

Create the Scorecard Before Opening the Proposals

We believe this is a useful way to improve an RFP process. Before proposals arrive, agree on the criteria the committee will use. The committee can weigh the categories according to its priorities.

Set the criteria first. It is generally better to establish these criteria before seeing the proposals. Otherwise, committees may unintentionally change what matters based on an especially persuasive presentation, an attractive historical performance number, or familiarity with a particular firm.

Sample RFP evaluation scorecard

Evaluation area	Question to consider
Investment approach	Does the philosophy make sense for our organization?
Understanding of our organization	Did the firm demonstrate an understanding of our mission, objectives, constraints, and governance structure?
People and service	Do we understand who will serve us and how the relationship will work?
Governance support	Are responsibilities and decision-making authority clear?
Portfolio and risk management	Does the approach appropriately consider our objectives, spending needs, liquidity, and risks?
Reporting and education	Will our committee receive information it can understand and use?
Fees and potential conflicts	Can we clearly understand the costs, economic arrangements, and potential conflicts?
Implementation	Is the proposed transition practical?

08 · FINALIST MEETINGS

Use Finalist Interviews to Learn What the Relationship Will Be Like

Once proposals have been reviewed, the organization may invite a smaller group for finalist meetings. Instead of asking finalists simply to repeat their written proposals, use the meeting to explore situations that matter specifically to your organization.

- Our organization needs to make its annual distribution during a significant market decline. Talk us through what happens.
- Our board is considering changing its spending policy. How would you help us evaluate that decision?
- Our investment committee has members with very different levels of investment experience. Show us how you would explain our portfolio results to this group.
- Tell us which investment decisions we would still be responsible for after hiring you.

These discussions can make differences in investment philosophy, communication, governance, and decision-making much more tangible.

09 · DUE DILIGENCE

Check References and Complete Due Diligence

Before reaching a final decision, perform additional diligence appropriate to the assignment. References can be particularly useful when they come from organizations with similar portfolios, staffing, and governance structures.

Rather than asking only “Are you happy with the firm?”, consider more specific questions:

- Who is your primary relationship team?
- How responsive is the firm when something unexpected happens?
- How useful are your committee meetings?
- Are reports understandable?
- How has the firm handled difficult market environments?
- Is the service you receive consistent with what was described during the selection process?
- What do you wish you had asked before selecting the firm?

The organization should also review the proposed agreement with appropriate legal and other professional advisers and confirm that responsibilities, services, fees, termination provisions, and other important terms reflect the arrangement the organization believes it is selecting.

Maintaining documentation of the process, including evaluation criteria, proposals, committee assessments, reference checks, important due-diligence findings, and the rationale for the final decision, is also, in our view, a sound governance practice.

10 · START SMALL

If You Don’t Know Where to Start, Start Small

An investment RFP can sound daunting, particularly for a nonprofit without dedicated investment staff.

It does not have to begin with a 50-page questionnaire. Start by answering four questions.

1. **Why are we considering a search?** Write down the reasons. This becomes the foundation for defining what the organization needs.
2. **What do we need from an investment provider?** Determine the services, level of delegation, reporting, investment support, and committee assistance the organization needs.
3. **Who will manage the process?** Decide whether the board, investment committee, a smaller working group, an outside search consultant, or some combination will manage the search.
4. **How will we find and evaluate candidates?** Determine where potential firms will come from and establish the evaluation criteria before proposals arrive.

Those four decisions provide the foundation for the rest of the RFP.

11 · THE PURPOSE

The RFP Is About More Than Choosing an Investment Firm

For a nonprofit organization, an investment-provider search can accomplish something valuable even before a provider is selected. It causes the organization to step back and ask fundamental questions:

- Why do we have these assets?
- What do they need to accomplish?
- What investment decisions should our board make?
- Which responsibilities should we delegate?
- What information does our committee need to provide effective oversight?
- What should we expect from an investment partner?

For a small or midsize endowment, foundation, or nonprofit without a dedicated investment office, those questions are particularly important. You do not have to know all the answers before beginning an RFP.

The objective

You do, however, need a process that helps your organization ask the right questions, identify credible alternatives, evaluate them consistently, and reach a decision that your board understands and can support.

IMPORTANT INFORMATION

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