



Institutional Consulting Group

2006 RFP Survey of Investment Management Organizations

EXECUTIVE SUMMARY

Callan's Institutional Consulting Group conducted this survey of investment management organizations to report on RFP structure and practices in the industry. Key findings are highlighted below.

◆ SURVEY RESPONDENT CHARACTERISTICS

- 83 investment management organizations participated in this survey.
- More than half (60%) of the respondents qualify as large-to-mega sized firms with total organizational assets under management of greater than \$25 billion.
- Over a third (41%) of the respondents have an institutional focus with over 50% of total assets comprised of U.S. tax-exempt assets.

◆ RFP TEAM STRUCTURE TRENDS

- Recently the trend at many investment management organizations is to restructure RFP teams. With the goal to: 1) lower turnover; 2) offer positions that are more challenging with greater involvement in the entire marketing effort; 3) create broader responsibility; 4) find and retain more experienced professionals; and most importantly 5) ensure consistency of message across all forms of communications.
- Many investment firms seem to be moving toward forming one group—whether it is RFP, client relations or product specialists—to have ownership of all content for questionnaires, RFPs, presentation materials and databases.
- As the volume of information requests has increased over the past few years, more organizations are using external tools as well as creating proprietary systems to help automate and track these requests.
- With more providers offering outsourcing solutions to database and questionnaire management, some firms have chosen to outsource this function in an attempt to eliminate turnover issues, cut down on expenses, and to create more of a product specialist role.
- Compliance/legal review of RFP content is very integrated throughout the entire RFP process, creating a need for more lead time, additional oversight resources, and more tools to provide internal personnel with pre-approved/reviewed content.

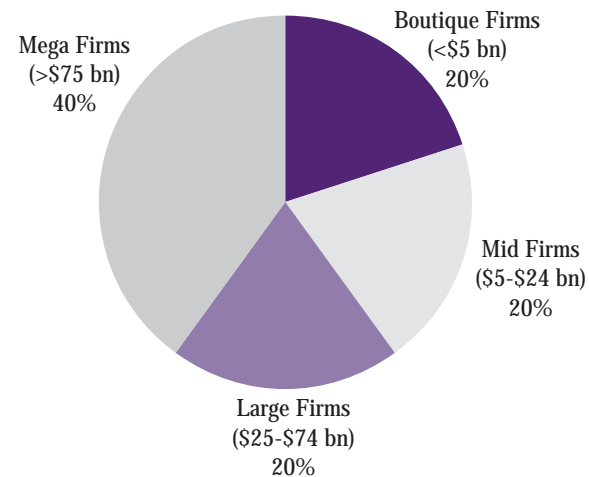
SURVEY RESPONDENT CHARACTERISTICS

Survey results incorporate responses from 83 investment management organizations. The firms in total managed more than \$10.6 trillion in assets as of December 31, 2005. As the top pie chart illustrates, more than half (60%) of the respondents qualify as large or mega firms with total organizational assets greater than \$25 billion.

The second pie chart illustrates the degree to which firms might be focused on the institutional marketplace. The pie chart depicts the percentage of total firm assets as represented by tax-exempt investors as of December 31, 2005. Firm assets are highly concentrated on the institutional arena for approximately one-fourth of the firms and this is most prevalent among boutique and mid firms. The larger the firm, the greater the asset diversification across distribution channels.

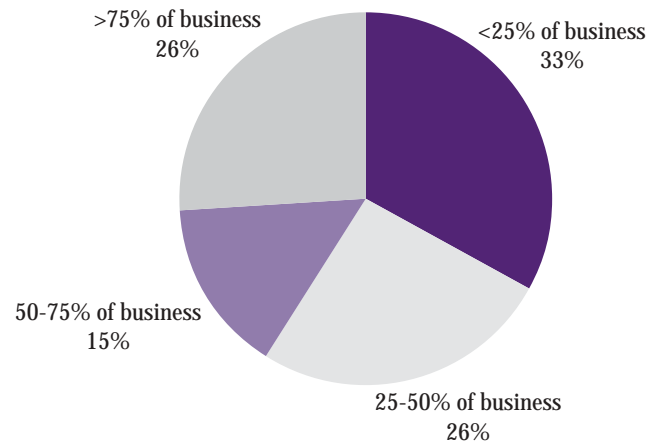
Finally, across firms, the median number of discrete investment strategies was 10-15 and was generally related to firm size. We note that smaller firms generally managed less than five distinct strategies. Approximately half of the larger and mega firms had between 15-20 investment offerings.

By Asset Size Breakdown*



83 respondents

U.S. Tax-Exempt Assets as a % of Total Organizational Assets



* Throughout this document we refer to plan size as designated here. Boutique firms have less than \$5 billion in assets; mid firms have between \$5 billion and \$24 billion; large firms have between \$25 billion and \$74 billion; and mega firms have more than \$75 billion in total organizational assets under management.

RFP/RFI RESPONSIBILITY & RESOURCES

As illustrated in the table, the marketing group is most often responsible for RFP/RFI functions across boutique, mid and large firms. Among mega firms, nearly one-third of respondents indicated the marketing team is responsible for this function; an equal percentage of survey respondents utilize a separate RFP team.

Boutique, mid and large firms indicated the group responsible for completing RFPs/RFIs is also charged with populating consultant databases. Once again practices at mega firms differ slightly. Approximately one-fifth of mega firms employ a different group for completing consultant databases. This is not surprising given the range in product offerings among mega firms and the sizable number of consultants they serve.

The vast majority (80%) of mid, large and mega firms indicated the group responsible for RFP/RFIs supports multiple distribution channels including: institutional, retail, U.S., Non-U.S., private client, WRAP, SMAs, RIAs, sub-advisory, SMAs, broker/dealers, Defined Benefit and Defined Contribution.

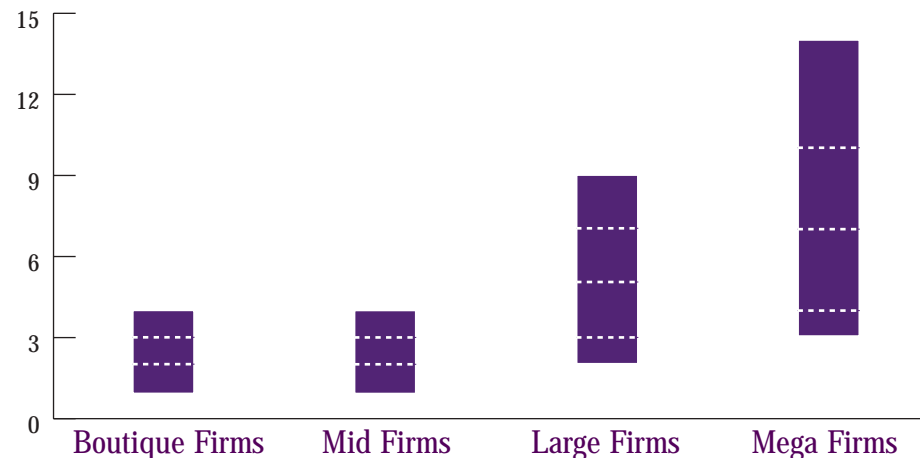
As the floating bar chart illustrates, the mega firms have the most deeply resourced RFP/RFI teams, with a median of 7 professionals and an average of 4 years industry experience. RFP/RFI professionals at boutique and mid firms average 14 and 10 years industry experience, respectively.

Finally, two-thirds of the firms indicated that content management—ensuring consistency of message across all forms of communication—is part of the RFP/RFI function. Content management among remaining firm respondents is handled separately.

Group Responsible for Completing RFP/RFIs

	FIRM SIZE			
	BOUTIQUE	MID	LARGE	MEGA
RFP Team	5%	18%	19%	33%
Marketing	65%	53%	44%	33%
Sales	18%	24%	12%	15%
Client Service	12%		25%	7%
Consultant Relations		5%		6%
Communications				3%
Investment Team				3%
	100%	100%	100%	100%

Number of Dedicated RFP/RFI Professionals



# of Firms	17	17	16	33
Average Years Industry Experience	14	10	8	4
Average Years Experience with Firm	4	5	5	3

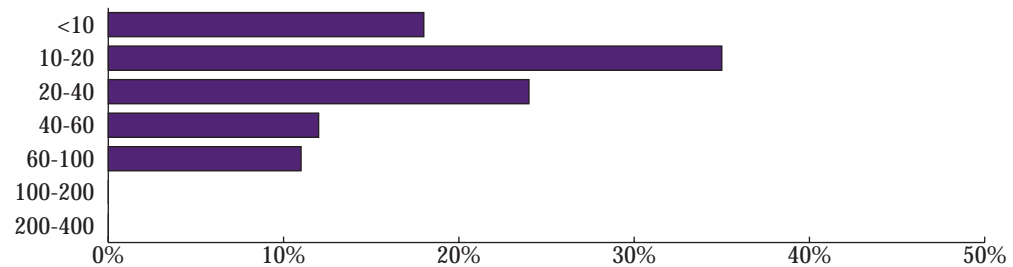
BOUTIQUE FIRM INFORMATION REQUESTS

Boutique firms complete the fewest RFP/RFI requests per year compared to mid, large and mega firms. Greater than half the boutique firms complete between 10 and 40 RFP/RFIs annually. The majority (59%) of these boutique firms have less than five distinct investment strategies and, on average, two professionals dedicated to the RFP/RFI function. More than three-quarters of boutique firms employ a pre-qualification process before responding to an RFP/RFI, but decline few requests (five RFP/RFIs or 13% of total requests).

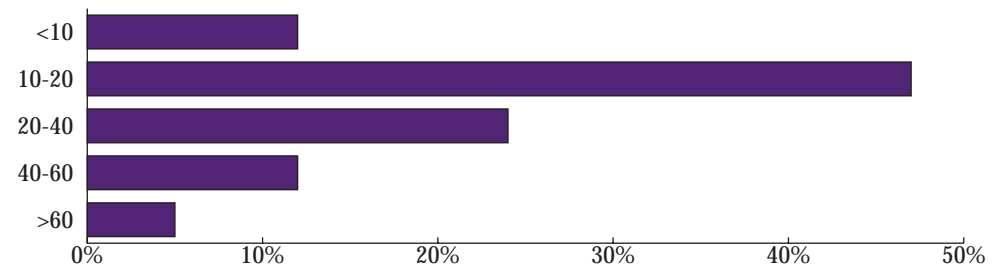
Boutiques also complete fewer consultant questionnaires compared to mid, large and mega firms. This is not surprising given the product array relative to larger firms. The majority of firms within this size group complete between 10-20 consultant questionnaires per annum, where as mid, large and mega firms complete more than 60 each year.

Finally, nearly 60% of the boutique firms provide between 10 and 40 client updates each year.

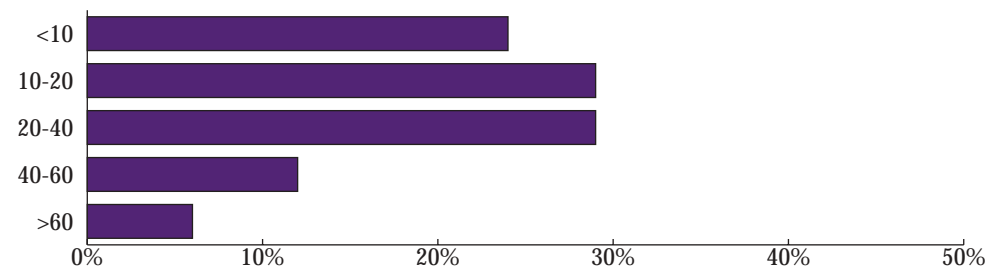
of RFP/RFI Requests Completed Per Year*



of Consultant Questionnaires Completed Per Year



of Client Due Diligence Updates**



* Excluding consultant questionnaires

** Specific product/org information



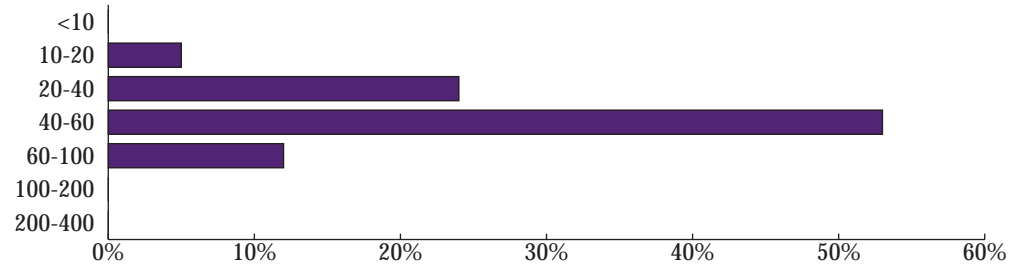
MID FIRM INFORMATION REQUESTS

Among mid firms, nearly two-thirds of respondents complete between 40 and 100 RFP/RFI requests per year. Mid firms, on average, complete twice as many RFP/RFI requests as boutique organizations with the same average number of professionals (2). Mid firms generally employ a pre-qualification process before responding to an opportunity.

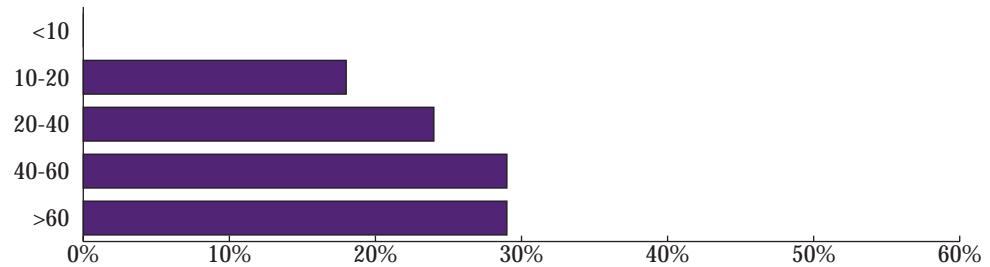
Mid firms appear to target the consulting community more than boutique firms, based on the number of consultant questionnaires completed annually. As the middle chart illustrates, nearly two-thirds of mid firms complete more than 40 questionnaires annually (compared to boutiques where the majority completed less than 20 per year).

Approximately two-thirds of these firms also complete between 10 and 40 client due diligence requests annually. While this marks a larger number of requests relative to boutique firms, the level of dedicated resources to this function, and overall experience of those professionals, is comparable to boutiques.

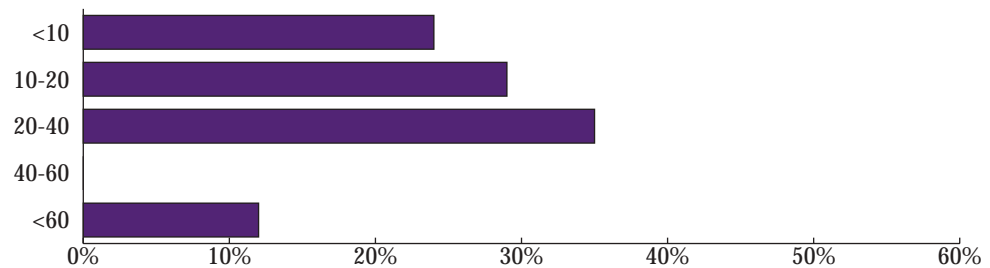
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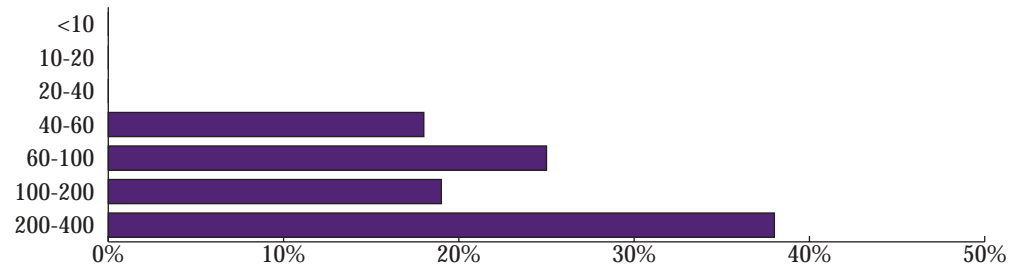
LARGE FIRM INFORMATION REQUESTS

On an annual basis, 57% of large firms complete more than 100 RFP/RFIs and 38% complete more than 200 requests annually. Large firms complete four times as many RFP/RFIs as boutique and mid organizations, with an average team size of five professionals, or twice the size of boutique and mid firms. The vast majority (94%) of large firm respondents pre-qualify an opportunity before responding. Nearly three-quarters of large firms will decline an RFP/RFI request; approximately 3% of RFP/RFI requests (or 5-10 RFP/RFIs) are declined annually across firms in this group.

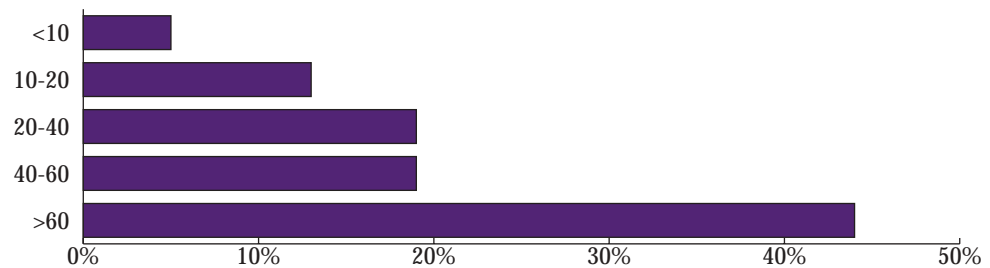
Large firms are generally more focused on consultants than boutique or mid firms. Of large firms, for example, 44% complete more than 60 consultant questionnaires each year. By way of reference, only 29% of mid firms and 5% of boutique firms complete this volume of consultant questionnaires each year.

Finally, two-thirds of large firm respondents provide 20-60 client updates annually. Team structure, depth and the volume of informational requests is similar to mega firms.

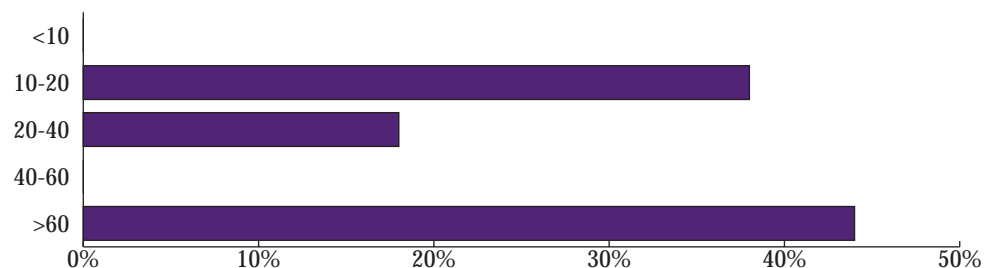
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MEGA FIRM INFORMATION REQUESTS

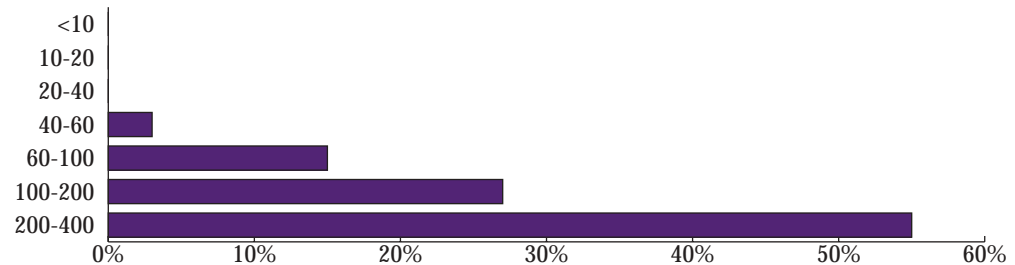
Due to an increased number of investment strategies, firms within the mega-size category complete the greatest number of RFP/RFI requests relative to respondents in other size groups. While 82% of this size group complete more than 100 requests annually, more than half the group responds to 200 such requests each year. Nearly every firm (97%) employs a pre-qualification process before completing an RFP/RFI. More than half these firms decline 10-20 requests annually (or 5% of total RFP/RFI requests).

Mega firms also complete more consultant questionnaires than other size groups. Almost half of the mega firms complete more than 60 consultant questionnaires each year; two-thirds complete more than 40 annually.

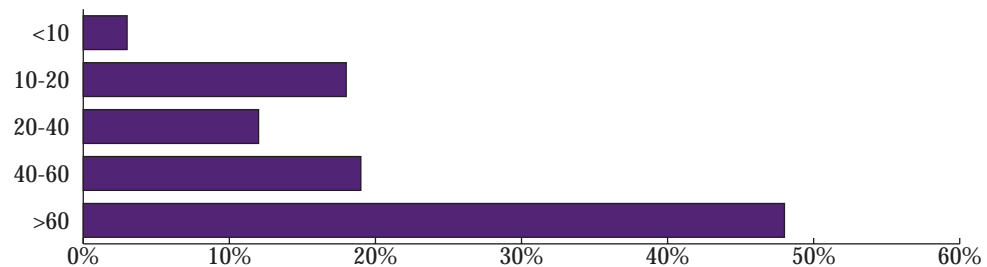
Finally, the majority of mega firms (56%) respond to more than 60 client due diligence updates each year.

Mega firms employ greater resources to complete the RFP/RFI function with an average team size of eight. However, resources are not as deep as one might expect given the volume of informational requests and breadth of product array. Team size may be a function of the use of automated RFP systems and tools (RFP Machine, Proposal Management and Production System, internal databases); specialized personnel on different areas of the content management function; and outsourcing this function to external entities.

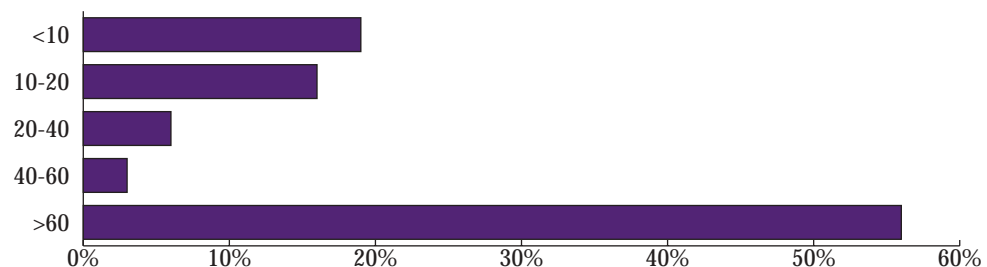
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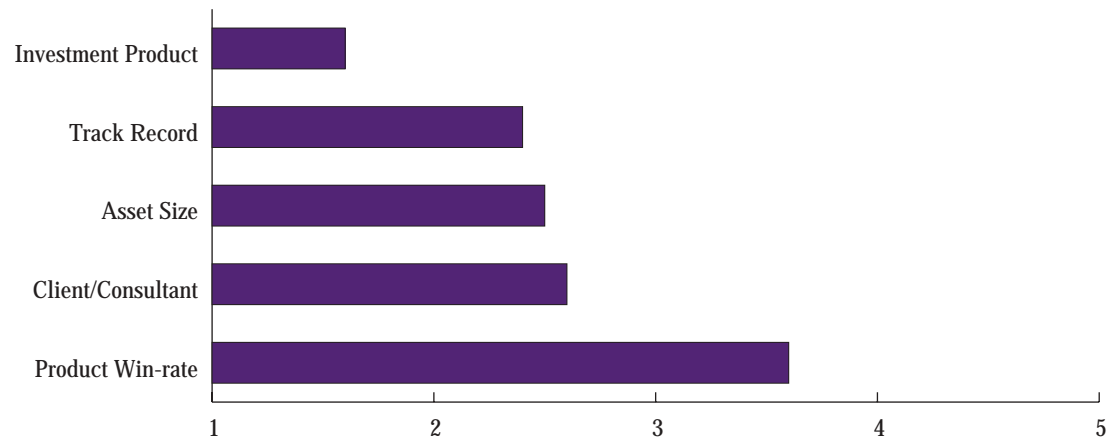


RFP PRE-QUALIFICATION CRITERIA

Across respondent firms, 63% ranked investment product as the most important pre-qualification criteria used before responding to an RFP, while 24% ranked product win-rate as the least important criteria for RFP pre-qualification. The ranking of criteria follows the important qualitative factors that drive search activity: investment product style, length of track record and level of product assets.

Boutique and mid firms ranked asset size as the second most important criteria. Whereas, large firms ranked product win-rate the second most important factor and mega firms ranked asset size.

RFP Pre-qualification Criteria
(1= most important factor; 5= least important factor)

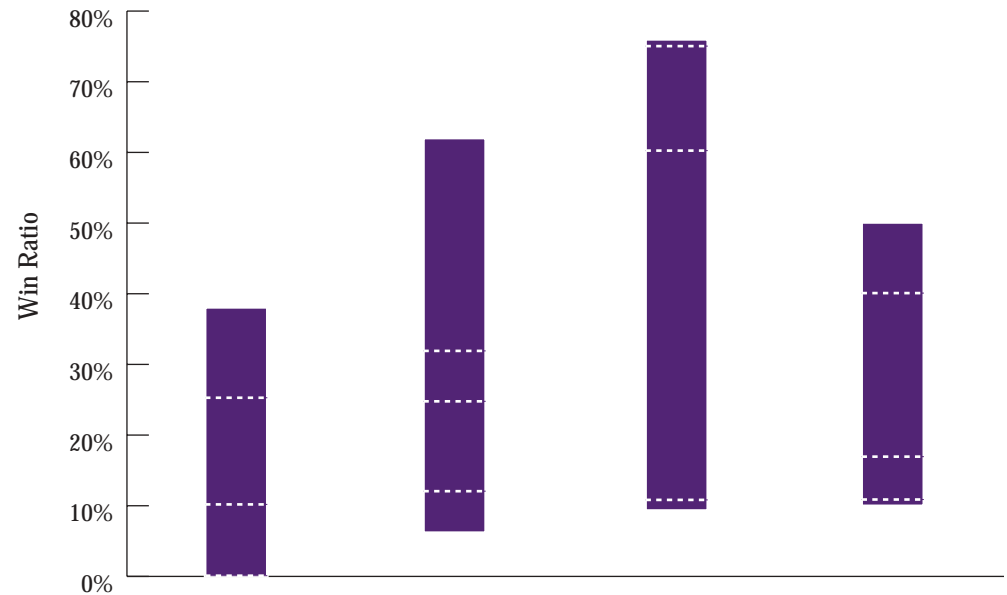


WIN RATIOS

Large firms had the greatest win ratio across firm size groups, with a median win rate of 60% over the last three years from RFP completion to funding. Conversely, win ratios across mega, mid and boutique firms are surprisingly low. Boutique firms in particular have a narrow range of win rates and a median of only 10%. One might expect boutique firms to rely on a direct sales opportunity to raise assets as opposed to broader RFP/RFI processes.

Finally, we examined the ratio between the number of RFP/RFIs completed relative to dedicated resources. Not surprisingly, the ratio increases in conjunction with firm size. While the ratio of RFP/RFIs to number of dedicated resources is 10 for boutique firms, this figure grows to 57 for mega respondent firms.

Approximate Win Ratio for the Last 3 years of Completed RFPs from Shortlist to Funding



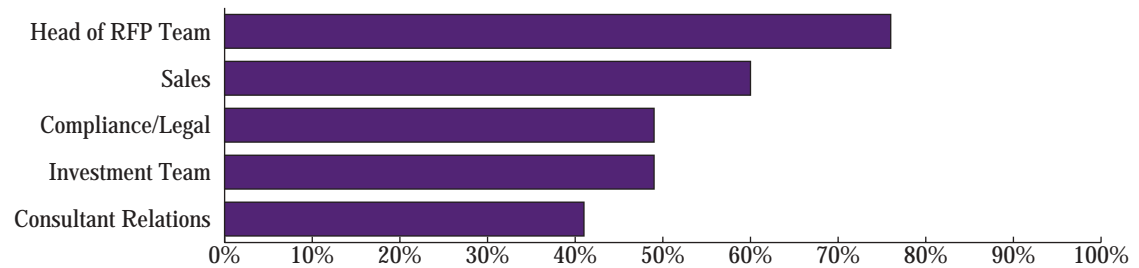
	Boutique Firms	Mid Firms	Large Firms	Mega Firms
90th Percentile	38%	62%	76%	50%
75th Percentile	25%	32%	75%	40%
Median	10%	25%	60%	17%
25th Percentile	0%	12%	11%	11%
10th Percentile	0%	6%	9%	10%
# of Firms	9	16	9	21
Median # RFP/RFIs	20	60	200	400
Median # Dedicated Resources	2	2	5	7
Median # RFP/RFIs to Dedicated Resources	10	30	40	57

RFP OWNERSHIP

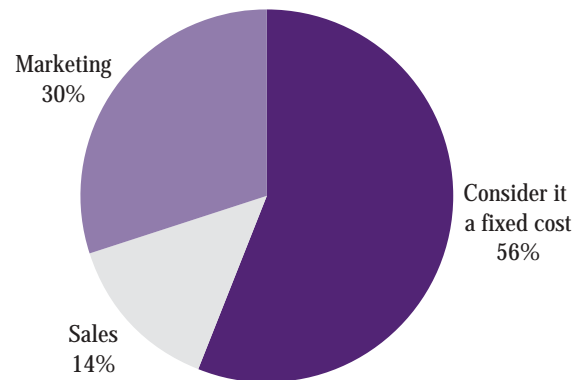
The vast majority of respondent firms have multiple groups review an RFP/RFI before it is submitted to the prospective client. As the chart illustrates, more than three-quarters of firms have an RFP group manager review the responses before information is disseminated. Approximately half of the firms also indicated the sales, compliance/legal and/or investment team reviews the response before submission. Boutique firms in particular indicated the involvement of investment professionals in the RFP/RFI review process.

Finally, most firms (56%) do not allocate costs associated with RFP/RFI completion and consider it a fixed cost. One-third of respondents allocate costs to marketing; 14% allocate costs to sales.

Ownership of RFP Review Before Disseminated (more than one can apply)



Allocation of RFP Cost



Institutional Consulting Group



Callan Associates and the Institutional Consulting Group would like to express our appreciation to the participants who took the time and effort to provide us with this valuable information.

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