



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77K Street, NE Washington, DC 20002

July 1, 2015

MEMORANDUM FOR BOARD MEMBERS KENNEDY, BILYEU, JONES, MCCRAY,
AND JASIEEN

FROM: GREG LONG
Executive Director

SUBJECT: Criteria for the selection of Investment Management Consultant(s)

FRTIB has used the services of Hewitt EnnisKnupp (HEK) for numerous projects including supporting the source selection teams in the evaluation of investment management proposals for the C, S, I and F Funds; an analysis of the overall plan design; and an analysis of the use of multiple managers per fund. The contract HEK expires on March 1st, 2016.

FRTIB has also contracted with Mercer Investment Consulting (Mercer) for conducting L Fund asset allocation and glide path analysis. Mercer is currently in the final option year of the contract, which runs through March 7th, 2016.

Since both contracts end at almost the same time, I believe this is an opportune time to review the FRTIB's needs going forward. The TSP is a defined contribution plan, and as such has the need for informed, knowledgeable and well researched advice on plan design, investment options, participant communication and education and other operational issues that can help our participants retire with dignity. The TSP also has some unique features that require it to get informed, knowledgeable and well researched advice on indexes and passive managers, securities lending, separate account management and other operational and back-office functions that are more common among defined benefit plans.

While the FRTIB has previously conducted separate procurements for these two consulting contracts, based on the analysis of the FRTIB's needs above, I am recommending that one RFP be issued for both assignments and that one or more Investment Management Consultants be selected to provide the services currently provided by Mercer and by HEK. Both Mercer and HEK will be allowed to participate in the procurement.

Selecting one or more managers will allow us to create a stable of consultants with a wide array of expertise and will provide several advantages.

- All consulting firms have different areas in which they have superior knowledge and capabilities. With a stable of consultants we can ensure that we use the best firm for the particular issue that the FRTIB needs to

be addressed. For instance, one firm may be the best in securities lending and another firm may be the best in participant communication, while a third may have an edge in plan design issues affecting saving behavior.

- Each consulting firm's expertise is closely tied to the quality of its team. Should teams change over time, having alternatives already available will allow us to continue to get the best advice. For instance, while one firm may currently be the best in securities lending, another firm may add expertise and talent that will be able to provide the FRTIB with better research and solutions on securities lending issues in the future.
- Each consulting firm within the stable will know that they are constantly being measured and compared against the other firms in terms of the quality of their research and the depth of their expertise. This will create an incentive to continue to provide the FRTIB with a high level of service.

The FRTIB can accomplish this type of procurement through a multi-award Indefinite Delivery Indefinite Quantity (IDIQ) contract.

The Agency will establish a Source Selection Evaluation Team (SSET) to review the Technical Proposals of all offerors. Each proposal will be reviewed to determine whether the offeror has met the minimum qualifications set forward in the solicitation. Proposals that do not meet the minimum qualifications will be rejected and will receive no further consideration. Proposals that meet the minimum qualifications will be evaluated and rated by the SSET, and ratings will be reported to the contracting officer.

The contracting officer will consider the technical evaluation rating, past performance and the cost proposal to determine a set of one or more consultants that would provide the best value to the TSP.

MINIMUM QUALIFICATIONS

Minimum qualifications will be used to winnow out the firms that are clearly not worthy of consideration because they are incapable of providing the services at the level the FRTIB needs and do not have the depth of organization or experience that will allow them to provide the research the FRTIB requests. The minimum qualifications will also reduce the administrative burden on the SSET and allow the team to focus its time on a deep analysis of the organizations that are capable of meeting our requirements. The minimum qualifications will therefore focus on assets and number of plans under advisement. Setting an asset threshold will ensure that the respondents will have experience with plans with substantial assets, and setting a number of plans threshold will ensure that respondents have experience dealing with a larger variety of issues and ensure firm and personnel stability by reducing single client risk.

In developing the minimum qualifications we began with a universe of 106 investment consultants which were listed in Pensions and Investments database of institutional consulting firms. We also issued two requests for information. We considered four factors when we analyzed this universe. Since we are a defined contribution plan, we considered:

- The defined contribution plan assets under advisement
- The number of defined contribution plans under advisement

In order to ensure that the respondents have the capability and experience that we desire, I recommend that we establish a minimum requirement for each bidding firm to have at least 50 defined contribution clients and at least \$30 billion in defined contribution assets under advisement. This set of consultants covers 90% of defined contribution assets and clients under advisement.

Note that picking just a minimum number of clients might result in consultants with a large number of very small clients. For instance, there is a firm with 80 defined contribution clients but only \$7.6 billion in assets, so the average plan is \$95 million. Clearly that firm would not understand some of the TSP's issues with regard to scale and liquidity.

Since we also have characteristics that are more akin to a defined benefit plan structure, particularly with regard to our asset size, separate account management, use of index asset managers and securities lending structure; we also considered:

- The defined benefit plan assets under advisement
- The number of defined benefit plan under advisement

Again, in order to ensure that the respondents have the capability and experience that we need, I recommend that we establish a minimum requirement for each bidding firm also have at least \$500 billion in defined benefit assets and at least 25 defined benefit clients.

This set of consultants covers 80% of assets and 90% of clients under advisement. The \$500 billion asset cutoff will ensure that the consultant has experience with plans with significant assets, while still maintaining a robust field of potential respondents. It should be noted that while this number is much larger than the minimum requirement in defined contribution assets, this is because defined benefit plans tend to be much larger in size due to their nature and therefore consultants advise on more defined benefit assets than defined contribution assets.

The TSP's asset base is an exception in the defined contribution universe.

EVALUATION CRITERIA

1. Organization

The SSET will rate each organization on the depth of its skills and staff in the areas that are relevant to the FRTIB. In particular, the SSET will review their experience in:

- manager searches and selection
- philosophical alignment with the TSP
- access to peer data on plan design, participant behavior, expense ratios and other operational measures.

2. Staff

The RFP will require each respondent to provide the name and biographical information of the staff that they expect to assign to the FRTIB. The SSET will rate each organization on the assigned staff. The SSET will review the staff experience in separate account management, manager search, securities lending and defined contribution plan design, their research papers, and their stability and position within the organization.

3. Report Format/Layout

The SSET will rate each organization on the clarity of the response and on the ability to convey complex issues in an understandable and clear manner while understanding the needs and issues that are unique to the FRTIB.

4. Analysis, soundness of approach and understanding of the needs of FRTIB

The RFP will ask each respondent to provide a concise response to a specific issue such as the use of active managers within the TSP. By requiring a sample assignment to be delivered as part of the RFP response, the SSET can (and will) rate each organization on the depth of analysis, clarity of communication, and comprehension of the issues facing the FRTIB.

5. Awareness of technology and its impact on the plan and its participants

The RFP will ask each respondent to provide responses which display their understanding of the technology issues impacting plans and their participants. The SSET will rate each organization on the clarity and depth of their responses and their understanding of how these issues impact the FRTIB.

6. Past Performance

The SSET will also use references and ratings from other clients to judge the offerors ability to perform services.

7. Award

This will be a best value (trade-off) source selection that is an integrated assessment of: Technical Capability, Past Performance, and Price. The award will be based on weighting of Technical Capability and Past Performance. The evaluation of

Price comes into play in the trade-off analysis determining best value. Note that after a competitive range is established, the SSET will conduct in-person visits at consultant facilities or at FRTIB Headquarters for oral proposals.

RECOMMENDATION

I recommend that the Board accept/approve these minimum requirements and evaluation criteria.