



**CAEP Winter Conference  
2018**

---

---

# Questions To Ask Investment Managers

---

---

**Rich Sichel**  
President  
[rsichel@ips-net.com](mailto:rsichel@ips-net.com)

**Jennifer Mink**  
Principal  
[jmink@ips-net.com](mailto:jmink@ips-net.com)

# The Initial Interview



# Interview Questions: The Firm

## Regulatory

- Registered with SEC
- Regulatory Issues
- Lawsuits/E&O

## Experience

- Years in strategy
- Assets at firm and in strategy
- Clients/types in strategy

## Ownership

- Ownership structure
- Key personnel
- Anticipated changes

# Interview Questions: The Team

## Experience

- Portfolio Manager
- Analysts
- Departures

## Decision Making

- Portfolio Manager
- Analysts
- Committee

## Track Record

- Who actually earned it?
- Consistency
- Peer Ranking

# Interview Questions: The Process

## Strategy

- Philosophy/goal
- Buy/Sell
- Fundamental/systematic

## Uniqueness

- Number of holdings
- Sector allocation
- Security selection

## Value-Add

- Downside protection
- Size and scale of firm/deal
- Willingness to close strategy

# Interview Questions: The Process

## Strategy

- Philosophy/goal
- Buy/Sell
- Fundamental/systematic

### Example:

- Index return + 3%
- Out of favor names
- Quality
- Don't lose money
- Absolute return

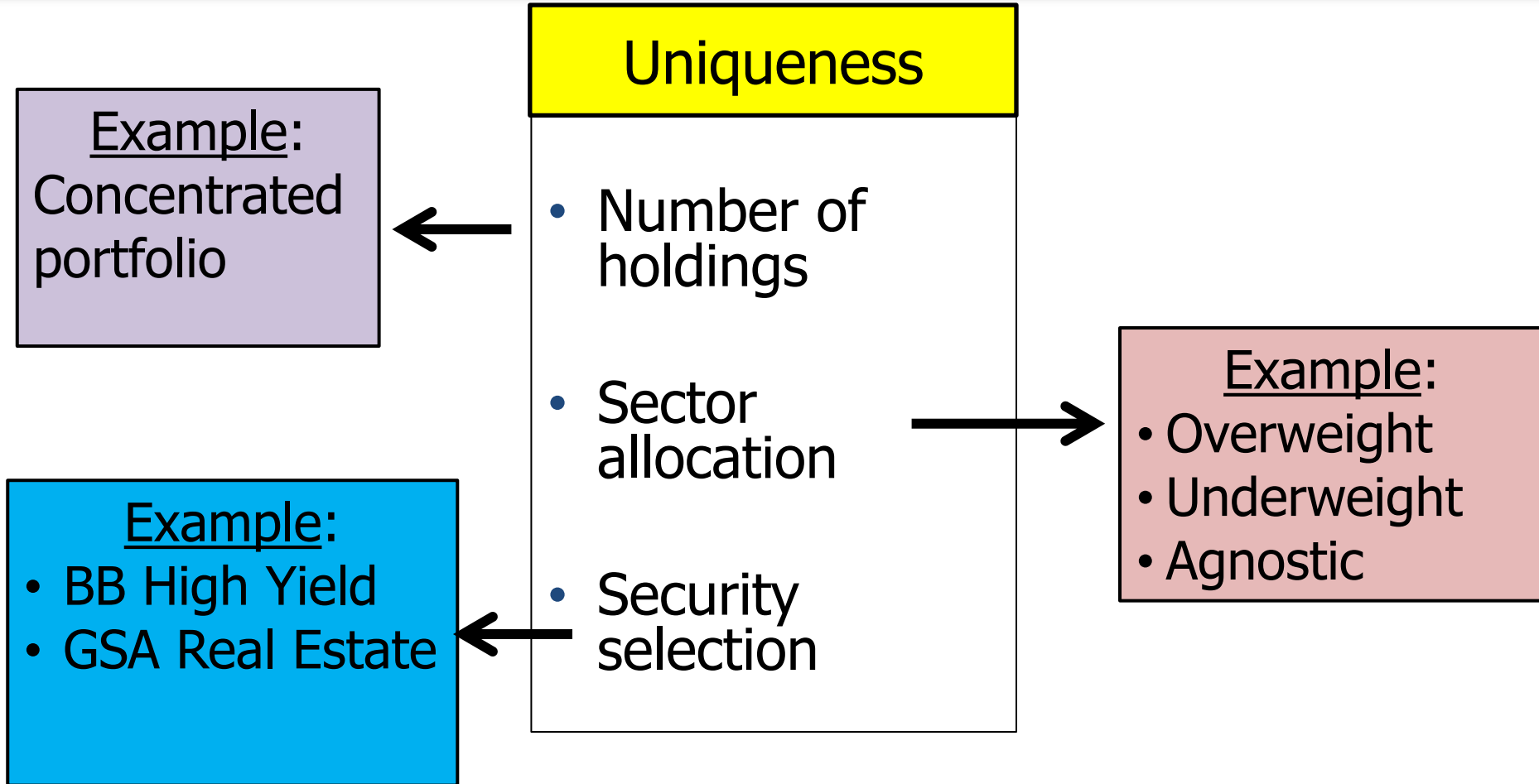
### Example:

- Decline 20%+
- Found better name
- Sector out of favor
- Regulatory change
- Target reached

### Example:

- Growth 10%
- Fallen angel
- Price
- New management
- New product

# Interview Questions: The Process



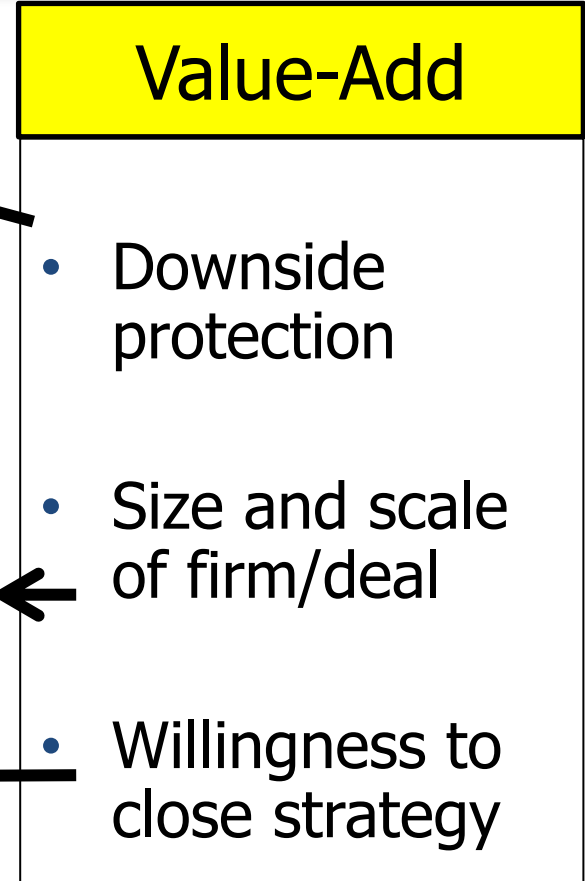
# Interview Questions: The Process

Example:  
May lag in up market,  
but protect capital when  
markets decline

Example:

- Small issues
- Large properties
- Small properties
- Large scale PE

Example:  
Some strategies are capacity  
constrained





# Interview Questions: The Other Stuff

- Ability and willingness to be an **ERISA fiduciary** in writing
- Internal controls for ensuring **compliance** with your Investment Policy Statement
- Returns conform to CFA Institute's Global Investment Performance Standards (**GIPS**)
- **Liquidity** constraints
- **Fees**—standard, discounted, most favored nations; and incentive fees

# The Ongoing Update



# Ongoing Update Questions

## Results

- Absolute and relative returns
- Universe rank
- Value-added?

## Process

- Buy/sell discipline
- Changes
- Expectations

## Team

- Departures
- New hires

# Ongoing Update Questions

## Firm

- Changes in ownership
- Regulatory issues
- Lawsuits

## Other

- Policy violations/requested changes to Investment Policy
- Changes in E&O insurance
- Change in liquidity
- Most competitive fee

# Watch List Meeting (a.k.a.—Something Ain't Right)



# Watch List Questions

## Performance Related Issue

- Did you stick to your discipline?
- Any change in the process?
- Proposed changes with the team/compensation?
- Requested changes with the investment policy?
- Assets/clients left the strategy?
- Anticipated turn-around?
- Fee reduction/performance-based fee?

# Watch List Questions

## Change in Ownership

- Key personnel changes?
  - Chief Investment Officer, Portfolio Management Team
- Signed employment contracts? Term?
- New lines of business?
- Involvement of new parent company or partner/affiliate?

# Watch List Questions

## Change in Portfolio Management

- Why did the PM leave?
- What involvement did new PM have in the process previously?
- Any other anticipated changes to team?
- Anticipated changes to the process?
- Employment contracts or bonuses?



# Watch List Questions

## Compliance Violation

- How/why did the violation occur?
- Changes that have been made to avoid future violations?
- Compensation due?
- Isolated incident?
- E&O-amount/carrier notification?



## Key Takeaways

- You have a **shared responsibility** as fiduciary with the managers you hire
- You should **be prepared**
  - Receive education on the asset class
  - Request materials in advance
  - Know what the problem is
- **Budget your time** accordingly
- Don't be afraid to **ask questions**
- **Remember why you hired the manager**