

# Choosing The Right Adviser

Committee members need to issue an RFP for an outside fiduciary

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Getting independent expert investment help can be key to satisfying a retirement plan committee's fiduciary duties with respect to selecting the plan's investment options. Investment help may be in the form of a nondiscretionary 3(21) investment adviser or a discretionary 3(38) investment manager. In our last column, "Options for Investment Help," we discussed the factors to consider when deciding on which type of expert to use.

Once that decision has been made, the next question is how do you select the appropriate provider? For purposes of this article, we refer to an investment adviser, but the same analysis generally applies if you are selecting an investment manager.

## Request for Proposals

As a starting point, the committee should prepare and circulate a request for proposals (RFP) to potential investment adviser candidates. No specific number of candidates must be considered, but there should be enough to give the committee a reasonable choice.

The RFP will include background information about the plan. For example, it should: define the plan's size, in terms of number of participants, total assets, average account balance, etc.; describe the nature of the plan sponsor's business; and supply any information that's unique about the plan or committee—e.g., the committee's interest in socially responsible investment (SRI) or the participant population's degree of investment savvy.

Next, the RFP should request general information about the candidate. This should include how long the adviser's firm has been in existence, how long he has worked with retirement plans, how many employees he has, etc.

Additionally, the RFP should request information on the following:

- The adviser's experience and expertise working with similar-size plans in your industry;
- The number of plans the adviser represents;
- The fee the adviser will charge, and the services to be included for that fee—e.g., recommendations regarding investment options, in-person attendance at committee meetings;

preparation of meeting minutes, assistance with preparing an investment policy statement (IPS), benchmarking of provider fees and investment education services; and

- References—finding out what the investment adviser’s other clients like, or don’t like, about him can be very helpful.

## **Meet the Adviser**

We recommend meeting with the investment adviser candidates, either all of them or a selected few based on the RFP responses. Meeting in person can give the committee the opportunity to assess its rapport with each candidate and get a better feel for how he responds and relates to the committee. The in-person meeting enables the committee to hear how the advisers present their services and to learn how each views the proposed relationship.

The committee members should also consider asking the candidates questions. While these may also be in the RFP, sometimes it is beneficial to hear the advisers’ live responses. Questions you might want to ask include:

- What differentiates you from other adviser candidates?
- Are you up on current Employee Retirement Income Security Act (ERISA) and fiduciary liability issues?
- How do you keep current?
- What education and guidance regarding industry trends can you provide?
- Can you handle special projects and issues as they arise?
- What justifies your additional costs? (If the candidate is more expensive than others)
- Have you been a party to any litigation or Securities and Exchange Commission (SEC) actions?
- How do you address conflict of interest issues?

## **Decision Time**

After reviewing the RFPs and meeting with candidates in person, the committee should convene to review and discuss the different prospects and select the one most appropriate for the plan. Keep in mind that, while fees are relevant, the committee does not need to choose based on those that are cheapest. Rather, it should select the adviser who is right for the plan, with fees being reasonable, relative to the quality and quantity of services to be provided.

The process and decision should then be documented in the committee minutes. Remember that the committee is not done once the selection is made—it then has an ongoing duty to monitor the

adviser and do periodic benchmarking and/or future RFPs to ensure that the adviser selection continues to be prudent.

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