

**Achievement of Market-Friendly Initiatives and Results Program
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**Criteria for Selecting an International Fund Manager
for the Social Security Investment Commission**

Final Report

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- International fund manager
- Investment management company
- Applicant firm
- Applicant's organization
- Performance
- Process
- People
- Key personnel
- Applicant's business arrangements
- Investment philosophy
- Selection process

Abstract

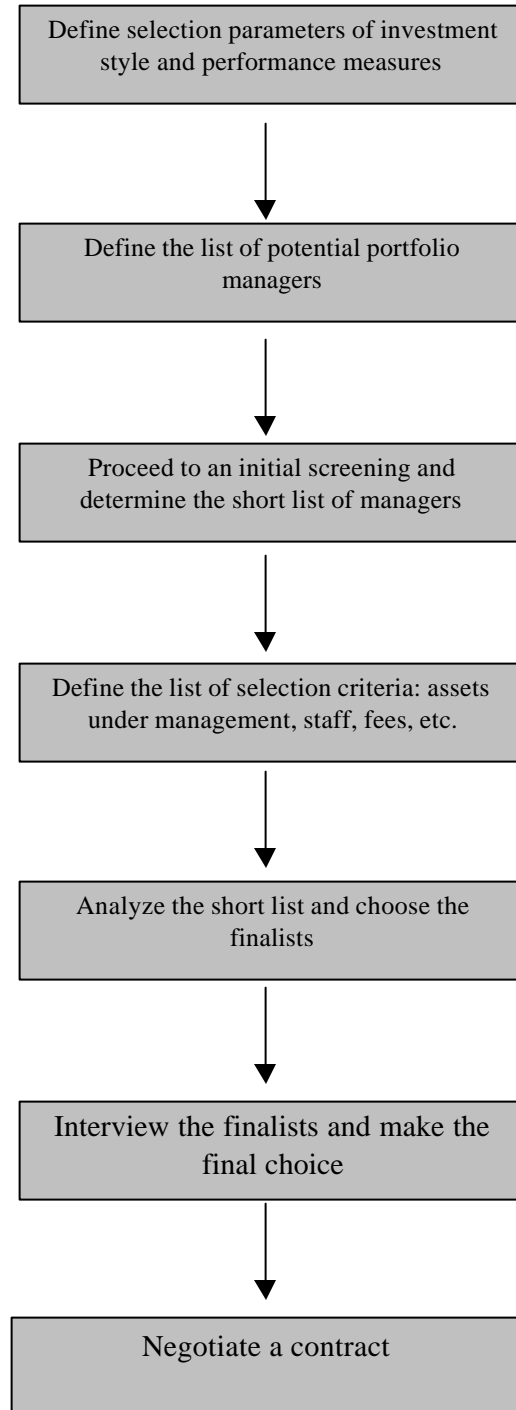
The purpose of this paper is to identify key factors the SSIC should consider when selecting an international fund manager. Three main factors are considered with regard to the applicant firm: (1) people, (2) process, and (3) performance.

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Executive Summary

The selection process is as follows:



Introduction

The intent of this paper is to advise the Social Security Investment Corporation (SSIC) of Jordan on the criteria for selecting an international fund manager. This criteria involves soliciting information from an applicant manager regarding three main factors:¹

- People (who is running the investment management company)
- Process (how they are doing it)
- Performance (how good they are at it)

Sections II, III, and IV will elaborate on each of these aspects. Section V outlines the chronological flow of the selection process.

People

This factor involves the applicant's corporate structure, credentials and experience, organizational culture, and rapport between the SSIC and the applicant. The following are general provisions that the SSIC should require of the applicant.²

1. Summary Cover Sheet
 - Name of the Applicant Firm
 - Address of the Firm
 - Name, telephone, number, and title of Individual with Authority to Commit the Firm
 - Name, telephone number and title of Proposed Account Manager, if different from above
 - Year of registration with appropriate securities governing body
 - Product Type (in this case product is already determined to be ETF)
 - Date of Submission of Registration
2. Description of Applicant's Organization

¹ Eriksen, Jonathan, "Selection Criteria for Investment Managers", <http://www.tacis-medt.ru/pdf/6.06%20Eng%20Selection%20Criteria%20for%20Investment%20Managers.pdf>

² Logue, Dennis E., "Managing Corporate Pension Plans", HarperCollins Publishers, 1991, page 147-150

- An organizational chart indicating the reporting relationships of the entity responsible for this proposed relationship and the most senior management of the organization.
 - Location of the applicant's offices and indicate the staff size in the following categories:
 - a. Professionals
 - b. Portfolio Managers
 - c. Economists
 - d. Traders
 - e. Client Service
 - f. Marketing
 - g. Administration (including accounting and record keeping)
 - h. Non Professionals
 - Joint ventures or other affiliations of the applicant requiring a commitment of capital, a commitment of personnel or the acceptance of a liability.
 - Copies of applicant's most current filings with appropriate securities governing body and audited financial statements noting any material changes since the preparation of these documents.
3. Qualifications and Experience of Applicant's Key Personnel
- List of key personnel for whom no substitutions will be made without prior consultation with the SSIC.
 - Biographies of key personnel that include:
 - a. Education
 - b. Complete Professional history including duration of term in present position
 - c. Current position and responsibilities
 - d. Current client responsibilities where relevant
 - Number of accounts and total size of accounts by class of assets being managed
 - List of investment clients for whom more than \$50 million is being managed, including contact information.
 - List of clients obtained within the last three years, including client contacts

- List of clients who have terminated in the last three years, including contacts where available.
 - List of significant new hires and termination within the last three years for the entity responding to this proposal
4. Applicant's Business Arrangements
- Proposed management fee schedule including:
 - a. Start-up fees
 - b. Annual fees and method of computation
 - c. Payment schedule
 - d. Quarterly presentations to SSIC
 - Performance based fee alternative, if appropriate
 - Proposed arrangement for brokerage services including:
 - a. An estimate of total commission costs per transaction that the SSIC could expect
 - b. List of brokers executing at least 10% of dollar volume over the last 12 months
 - c. List of total value of "soft dollar" services purchased over the last 12 months
 - Procedures for handling transfer of assets (if applicable)
 - Sample client report for accounting and auditing procedures
 - Sample contract specifying SSIC as client

Process

The issues involved the applicant's:³

- Soundness of investment philosophy
- Likelihood of generating the expected results
- Consistency
- Compatibility with markets and modern portfolio theory
- Hedging and risk management procedures

³ Eriksen, Jonathan, "Selection Criteria for Investment Managers", <http://www.tacis-medt.ru/pdf/6.06%20Eng%20Selection%20Criteria%20for%20Investment%20Managers.pdf>

The following are definitive selection criteria recommended to gauge the process of an applicant.⁴

A. Applicant's Fixed Income Management

1. A detailed description of management style:
 - Decision rules for making buys
 - Decision rules for making sells
 - Screens or filter rules to subset the universe of securities considered
 - Technical and summary descriptions of portfolio optimization algorithms
2. A detailed description of resources:
 - Is software used to implement decision rules owned or leased? If leased, name the vendor
 - What provisions are in place to assure the maintenance of the software?
 - What electronic databases are used to support portfolio management?
 - What is the source of bond pricing used by the firm? Under what conditions can bond pricing be overridden by dealer quotes?

B. Applicant's Equity Management

1. A detailed description of management style
 - Decision rules for making buys
 - Decision rules for making sells
 - Screens or filters are used to develop subsets of the universe of securities that are portfolio candidates
2. A detailed description of resources
 - Is software used to implement decision rules owned or leased? If leased, name the vendor.
 - What provisions are in place to assure the maintenance of the software?
 - What electronic databases are used to support portfolio management?
 - What is the source of equity pricing for thinly traded issues used by the firm? Under what conditions can equity pricing be overridden by dealer quotes?

⁴ Logue, Dennis E., "Managing Corporate Pension Plans", HarperCollins Publishers, 1991, page 150-154

Performance

The following is a set of criteria be used to measure the applicant's performance:⁵

- Applicant's Technical Requirements: Fixed Income Management

Holdings of a representative \$50 million portfolio assuming investment in the most recent quarter. If applicant is proposing a commingled fund, submit the holding of the fund as of the end of the most recent quarter end. List representative buys and sells or if a commingled fund is proposed, list all transactions. Calculate the following summary statistics for the portfolio:

1. Market weighted duration
2. Market weighted average maturity
3. Market weighted average quality rating
4. Cash and cash equivalents as a percent of portfolio assets
5. Number of issues and proportion of market value represented by the largest 10 holdings
6. Holding period return in most recent quarter
7. Income yield over the period
8. Capital Appreciation over the period
9. Performance of fixed income holdings for each of the last 20 quarters and an annual time weighted rate of return net of all fees and management costs.
10. Calculate the following summary statistics:
11. Market weighted duration
12. Market weighted average maturity
13. Market weighted average quality rating
14. Cash and cash equivalents as a percent of portfolio assets
15. Number of issues and proportion of market value represented by the largest 10 holdings
16. Standard deviation of returns in excess of the risk free rate over the last 20 quarters
17. The Sharpe Measure over the period (20 quarters)
18. Level of portfolio turnover measured as the lesser of purchased and sales each quarter as a percent of average assets over the period

⁵ Logue, Dennis E., "Managing Corporate Pension Plans", HarperCollins Publishers, 1991, page 150-154

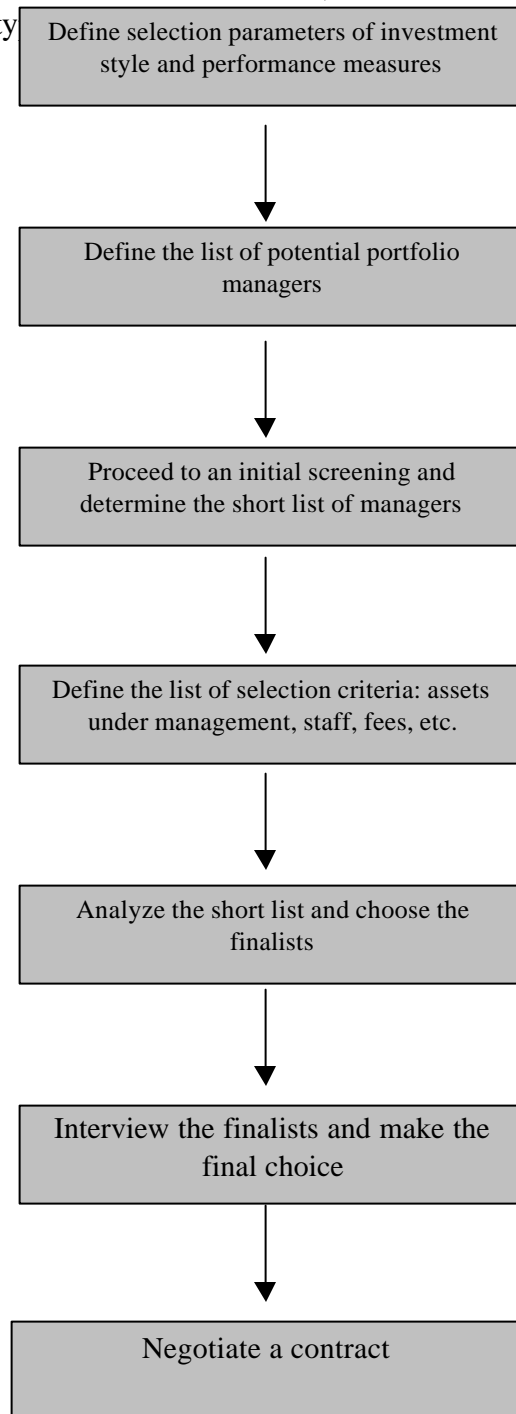
19. Income yield over the holding period
20. Capital appreciation over the folding period
21. Level of turnover over the period measured as the lesser of purchases and sales divided by the average market value of assets over the period
22. For each of the last 20 quarters, detailed proportional asset allocations quality rating with the duration computed for the portion of the portfolio assigned each quality rating.
23. A sample of a client report and indicate the frequency of such a report:
24. List of reports and other research routinely provided clients without additional charge
25. Who will represent the firm at quarterly client meetings?
26. Applicant's Technical Requirements: Equity Management
27. Holdings of a representative \$50 million portfolio assuming investment in the most recent quarter. If respondent is proposing a commingled fund, they are to submit the holding of the fund as of the most recent quarter end. List representative buys and sells or if a commingled fund is proposed, list all transactions.
28. Calculate the following summary statistics for the portfolio:
29. Market price/earnings ratio (Trailing 12 months and projected 12 months)
30. Portfolio beta (Identify index)
31. Proportional investment by broad industry grouping
32. Proportional investment by exchange or security market
33. Average market capitalization
34. Holding period income yield
35. Holding period capital appreciation. Cash and cash equivalents as a percent of portfolio holdings
36. Number of issues and proportion of market value represented by the largest 10 holdings
37. Level of portfolio turnover measured as the lesser of purchases and sales divided by the average assets over the period.

38. Performance of equity holdings for each of the last 20 quarters and annual time weighted rates of return, net of all fees and management costs.
39. Calculate the following summary statistics:
40. Market price/earnings ratio
41. Portfolio beta (Identify index)
42. Proportional investment by broad industry grouping
43. Proportional investment by exchange or security market
44. Average market capitalization
45. Holding period income yield
46. Holding period capital appreciation. Cash and cash equivalents as a percent of portfolio holdings
47. Number of issues and proportion of market value represented by the largest 10 holdings
48. Standard deviation of returns in excess of the risk free rate over the last 20 quarters
49. The Sharpe Measure over the period (20 quarters)
50. Level of portfolio turnover measured as the lesser of purchases and sales each quarter as percent of average assets over the period.
51. A detailed description of management style.
52. Decision rules for making buys
53. Decision rules for making sells
54. What screens or filters rules are used to develop subsets of the universe of securities that are portfolio candidates
55. A detailed description of resources:
56. Is software used to implement decision rules owned or leased? Of leased, name the vendor.
57. What provisions are in place to assure the maintenance of the software?
58. What electronic databases are used to support portfolio management?
59. What is the source of bond pricing used by your firm? Under what conditions can bond pricing be overridden by dealer quotes?
60. A sample of a client report and indicate the frequency of such a report:

61. List of reports and other research routinely provided clients without additional charge
62. Who will represent the firm at quarterly client meetings?

Selection Process

Once the selection criterion has been determined, the SSIC's next step would be the selection process. The type of selection process is shown in the flowchart below:⁶



Conclusion

In addition to the selection criteria outlined above, the SSIC must be comfortable with the applicant firm. Without a sense of chemistry, the relationship will likely not work for a longer period of time. Once selection is made, the SSIC should assign a contact person to the selected firm and have a team of SSIC people visit the firm as often as possible. The purpose of such visits is to enhance the relationship, better learn how the selected firm makes investment decision, and to import the decision-making process back into the SSIC organization at some point in the future.

⁶ Hababou, Moez and Martel, Jean-Marc, "A Multicriteria Approach for Selecting a Portfolio Manager" (1998), <http://www.ryerson.ca/~mhababou/paper.pdf>, page 3.