**[MANAGER NAME]**

**Due Diligence Questionnaire [Public Equity Mandate]**

**[Date of the Submission]**

### General Information

Firm Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Address: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

City: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ State: \_\_\_\_\_\_\_\_\_ Zip: \_\_\_\_\_\_\_

Contact Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Phone: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Fax: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Email: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Strategy under Consideration: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

* Ownership
	+ Please describe the organizational structure and any recent changes.
	+ Are there any anticipated changes in ownership in the foreseeable future?
	+ Please provide an organizational chart of the legal structure of the organizational structure, all senior management, all investment professionals, and all affiliated companies.
* Professional Staff
	+ Provide bios of key personnel
		- Client Relationship
		- Key Decision makers
* Is the firm on any client watch list?

**Assets Under Management (AUM)**

* Please complete the following table as of the most recent quarter end:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Total Number of Clients | Total AUM | Global Equity AUM | InternationalEquity AUM | U.S. Equity AUM | EM AUM | Other AUM \* |
| Public Pension |  |  |  |  |  |  |  |
| Corporate Pension |  |  |  |  |  |  |  |
| Endowment |  |  |  |  |  |  |  |
| Taft-Hartley |  |  |  |  |  |  |  |
| Commingled Funds |  |  |  |  |  |  |  |
| Individual Sep Acct. |  |  |  |  |  |  |  |
| Non-US Based |  |  |  |  |  |  |  |
| Other \*\* |  |  |  |  |  |  |  |
| **Total** |  |  |  |  |  |  |  |

### \*/\*\* (Describe)

* What is the AUM of the strategy for which you are submitting the questionnaire?
* What is the AUM cap on this product, if any?
* Please indicate clients gained/lost in the product in the last 2 years. What were the reasons for client loss?
* Is the product on any of your clients’ watch lists?

**Team**

* Portfolio management responsibilities
	+ Number and names of portfolio managers assigned to this product. Number of analysts.
		- Primary
		- Secondary/Successor
	+ Key investment professionals gained/lost in the last two years. What were the reasons for any departures?
* Please provide a diagram of your investment team.
* Describe your process of bringing new analysts/portfolio managers onto the team.
* How are key investment professionals compensated?
* How many strategies does each portfolio manager manage?
* Do the portfolio managers have additional responsibilities? Explain.
* Approximately how many companies does each analyst follow?
* What role do analysts play in the decision making process?
* Do the analysts specialize in certain industries or are they more generalized?
* Is the firm aware of any future expected investment team and/or key personnel departures?
* Is there a transition plan to deal with sudden departure of key investment professionals? If so, describe the plan.

**Investment Approach**

* Describe in detail your philosophy and investment strategy.
	+ Have there been any changes to the strategy? If so, in which strategy and why?
* What makes your strategy different from other competitors?
	+ Does your strategy have a comparative advantage? If so, explain.
	+ In what ways has your strategy (product) given you an edge over competing managers?
* What firm’s do you consider as significant competitors? To what extent will competition effect your performance?
* What is the strategy’s geographic and industry focus?
* Does the strategy have a formal policy to exclude investments in any sectors or geographies?
* Describe your investment process starting from the source of a new idea to a decision to buy the stock, including the role of decision makers.
	+ What is the policy regarding position size of individual holdings?
	+ How do you determine stock, sector and country weightings?
	+ Are there limits to the stock, sector and geography weightings? If so, please explain.
	+ Describe the sell discipline on the upside as well as the downside.
	+ Describe your exit strategy.
* What elements of your strategy have had the greatest influence on returns relative to the benchmark? What elements have had the least influence? Explain.
* What are your current secular themes? What changes do you anticipate for the next 12 months? What were the secular themes for the last 24 months?
* What market conditions would favor and not favor your strategy?
	+ What areas of the market currently appear attractive and why?
	+ What evidence is there that your strategy will be successful in the future given the market outlook?
* How much performance variance is there among separately managed accounts?
* If applicable, how do you handle foreign currency exposure?
* If applicable, describe your firm’s policy towards currency hedging.

### Portfolio characteristics (most recent month-end data available)

* Number of holdings
* Percentage represented in the benchmark
* Company, sector, industry weightings of portfolio and benchmark
* Investment weighted market capitalization of portfolio and benchmark
* Average portfolio turnover for the last 3 years
* Median and weighted average market cap - portfolio and benchmark
* 1 year forward P/E – portfolio and benchmark
* Historical 3, 5-year, since inception tracking error
* Historical information ratio
* Expected excess return, gross of fees
* Expected (target) 3-year tracking error
* Expected 3 and 5-year beta
* Expected 3 year information ratio, gross of fees
* Include a portfolio that clearly represents the proposed strategy

**Please provide the following:**

* Annualized portfolio returns and benchmark for 1-, 3-, 5- and 10-year periods ending with the most recent month-end data available. (Please provide in an electronic Excel spreadsheet)
* Calendar year to date returns and for the last 5 calendar years.
* Attribution analysis of the portfolio’s performance versus the appropriate benchmark for the 12, 36, and 60 months ended the most recent quarter-end where data available.
* Provide most recent audited annual financial report.
* Submit a copy of your most recent ADV, parts I and II.

**Strategy Risk Management**

* Who is responsible for portfolio risk management? Describe the risk team.
* How is risk monitored over time?
* How do you deal/manage with the investment risks in your strategy? Please explain in depth.
* How significant are these risks to your investment strategy and the likelihood of occurrence?
* How do you deal with liquidity risk specifically? Explain.
* What percentage of the portfolio can be liquidated in 3 business days?
* Describe your risk factor exposure by region and sectors for 1-, 3-, and 5-year periods.
* What risk analytics/attribution system do you use?
* How are the risk metrics incorporated into portfolio construction?
* Have there been any changes in the operational environment? Key personnel? Structure? Please explain.

**Firm Risk Management/Business Continuity**

* What are potential threats the firm is commonly exposed to in relation to business continuity? (e.g. hackers, power outages)
	+ What security measures does your firm have in place to ensure the protection of firm and client assets?
* Describe your cybersecurity policies and procedures.
* Does your firm have a disaster recovery plan? If so, please describe the plan.
	+ In the event of a disaster, how long will it take to become fully functional?
* How does your firm back up computer files and systems?

**Trading**

* What systems and tools do you use for trading?
* Please describe how trade orders are created, submitted, and executed.
* Where is the trading operations located? Are there multiple locations? Please explain.
* How do you monitor and control trading costs? How does the trading costs compare to industry average?
* How are trades allocated among clients?
* How does your firm handle trading errors?
* Describe your process of selecting a broker. Briefly explain why you have selected this broker.
* Do you use brokers that are certified minority business enterprises?
* Do you use electronic trading networks or dark pools?
* Do you trade with brokers that are affiliated with your firm?
* What percentage of a commission goes for execution and what percentage is for the executing broker’s primary research?
* What is the firm’s policy regarding the use of soft dollars? Are they used strictly for the benefit of clients?
* Do you use commissions (soft dollars) to pay for independent third-party research or other services? If so, describe the services and their cost.
* Are you considering an end to the use of soft dollars?
* Do you utilize any third party for trading cost analysis? If so, could you share the results of such analysis?

**Foreign Currency Trading and Income Repatriation (if applicable)**

Describe the firm’s process for executing foreign exchange transactions, including: (Note: if the firm manages non-US assets for Maryland, it is conducting foreign currency trades in the portfolio in order to settle trades)

* How you select and monitor foreign currency brokers for trade settlements.
* How you select and monitor foreign currency brokers for income repatriation.
* How best execution is achieved and monitored?
* How are trading costs controlled?

**Compliance**

* Describe the firm’s compliance process.
* Who is responsible for compliance? Does the firm have a Chief Compliance Officer (CCO)? If so, provide a brief biography and responsibilities of that individual.
* Has the firm been posed with any fines due to non-compliance?
* Are you receiving any fees or other compensation from any of the companies in our portfolio? If so, describe the nature of the compensation and services being performed.
* Investment Compliance
	+ What controls are in place to ensure that our guidelines are not violated?
	+ What compliance system do you use?
	+ Provide a sample investment guideline compliance report for the latest reporting date.
	+ Does the firm use a third party to help with compliance issues?
* Regulatory Compliance
	+ Have there been any regulatory actions against the firm since our last meeting? If so, what was the outcome?
	+ Does the firm have a beneficial interest in the companies or partnerships in which the System is invested? If so, please describe the circumstances.
	+ Are there any regulatory issues/litigations that your organization is or was involved in within the last 10-years? How were these issues resolved?
	+ When did the SEC last audit your firm? Please note any material findings or recommendations.
* Personnel Compliance
	+ Please state your firm’s ethics policy.
	+ Has your firm ever experienced a violation of your compliance or ethics policy within the last 5-years? If so, explain what happened and how the issue was resolved.
	+ Are there any conflicts of interest between the firm and any fiduciary or employee of our Retirement System?
	+ Discuss how interests are aligned between the investors and the fund manager.

**Placement Agents**

* Do you use placement agents? If yes, please provide names of these agents.
* Does your firm use any third party firm or individual whose purpose is marketing and/or gathering assets for the firm and are compensated as such?
	+ If so, list all relationships and their nature.

**Expert Networks and Consultants**

* Describe the firm’s use of investment related consultants or expert networks.
* Describe the firm’s policies that cover the use of investment related consultants and expert networks. How long have these policies been in place?
* How recently were the policies modified and what modifications were made?
* What kind of training do you provide your employees in relation to the handling of information from investment related consultants and expert networks?
* Are you asked to sign non-disclosure agreements by your investment related consultants or expert networks? If so, do you?
* To date, have any of the organizations you currently work with or have worked with in the past been named in any of the legal inquiries? If so, when did you work with them?

**Proposed Fees & Guidelines**

* Provide the firm’s standard fee schedule in dollars and in basis points.
* Are fees negotiable?
* Would you consider a performance-based fee arrangement? If so, please provide the schedule.
* What guideline restrictions would prohibit in any way your ability to add alpha?
* Please provide suggested strategy guidelines?
* What benchmark would be appropriate for this strategy?
* What vehicles are available for investments in this strategy?

**ESG**

* Does the firm maintain an ESG (environmental, social, and governance) policy? If not, would you consider adopting a responsible investment policy? If so, please provide a copy of your ESG policy.
* Is the firm, parent or any affiliate a participant in the UNPRI or other responsible investment organization?
* Does the firm commit to any international standards, industry (association) guidelines, reporting frameworks, or initiatives that promote responsible investment practices?
* Does the firm incorporate ESG initiatives in the investment strategy in their investment process? If so, then what types of initiatives or factors do you incorporate?
* How does the Firm define the materiality of ESG factors? Give examples of ESG factors that have been identified as material.
* How are ESG risks and/or ESG-related opportunities reported to, considered, and documented by the ultimate decision making body, such as the Investment Committee?
* Does the Firm measure whether its approach to ESG factors has affected the financial and/or ESG performance of its investments? If yes, describe how it’s able to determine these outcomes.
* Which sources do you use to collect and track information on potential ESG-related risks and opportunities?

**Diversity**

* Please describe what policies and procedures your firm has in place to encourage diverse opinions and thoughts. Please provide a copy of any diversity policy your firm has in place.

**Conclusion**

* Are there any other significant matters that should be brought to our attention?
* Are there questions we did not ask that others typically ask?