**[MANAGER NAME]**

**Due Diligence Questionnaire [Fixed Income Mandate]**

**[Date of the Submission]**

### General Information

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

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

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

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

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

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

Strategy: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Organization/Team**

* Ownership
  + Provide a brief history of your firm.
  + Describe the organizational structure of the firm and any recent changes.
  + Describe any anticipated changes in ownership.
  + Provide a chart of the firm’s legal structure and a chart of the organizational structure (include all senior management, all investment professionals, and all affiliated companies).
  + Provide a list of all registrations (SEC, etc.).
  + Provide a list of affiliations with other firms.
  + Provide a list of current owners of the firm (Name, Relationship, % Ownership).
  + Provide a breakdown of ownership by the following:

|  |  |  |
| --- | --- | --- |
| African-American |  | **%** |
| Hispanic-American |  | **%** |
| Asian-American |  | **%** |
| Native American |  | **%** |
| Non-Minority Women |  | **%** |
| Majority (Caucasian Male) |  | **%** |

* Describe your succession plan.
* Provide a copy of your most recent financial statements.
* Professional Staff
  + Provide biographies of the key individuals in your firm and include the information listed below:
    - Name
    - Title/Position
    - Current Responsibilities
    - Prior Work History: Dates/ Names of Firms/ Positions Held/ Responsibilities
    - Colleges Attended/ Degrees Received
    - Professional Designations Awarded
  + Provide new hire and departure information over the past five years (names, titles, roles, dates, reasons for departure if applicable).
  + Describe the compensation structure in place and how key employees are retained.
* Provide the names of portfolio managers assigned to this strategy and their coverage and responsibilities.
* Provide the names of analysts dedicated to this strategy and their coverage and responsibilities.
* Describe your process for hiring and developing new analysts/portfolio managers.
* Describe the transition plan to deal with departures of key investment professionals.

**Assets Under Management (AUM)**

* Complete the following table as of the most recent quarter end:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Total # of Clients | Total AUM | Global  Developed Fixed Income | U.S.  Fixed Income | Emerging Markets Fixed Income | High Yield Fixed Income | Bank Loans |
| Public Pension |  |  |  |  |  |  |  |
| Corporate Pension |  |  |  |  |  |  |  |
| Endowment |  |  |  |  |  |  |  |
| Taft-Hartley |  |  |  |  |  |  |  |
| Commingled Funds |  |  |  |  |  |  |  |
| Individual Sep Acct. |  |  |  |  |  |  |  |
| Non-US Based |  |  |  |  |  |  |  |
| Other |  |  |  |  |  |  |  |
| **Total** |  |  |  |  |  |  |  |

* What is the AUM of the strategy for which you are submitting this questionnaire?
* What is the AUM cap on this strategy, if any?
* Please indicate clients gained/lost in this strategy (number and $ amounts) in the last 3 years. What were the reasons for client losses?

**Investment Philosophy and Process**

* Describe your firm’s fixed income investment philosophy and characterize your approach in terms of style and strategy.
* Describe any changes to your strategy that have been implemented during the prior five year period.
* What is your core competency / area of greatest expertise in fixed income markets? In which areas do you exhibit the greatest skill?
* What is your preferred benchmark for the strategy related to this questionnaire?
* What are your main sources of value add?
* Please discuss the rationale for why your philosophy/value add is focused, as is applicable, on: a) duration management; b) yield curve positioning; c) sector allocation; d) security selection; and e) other sources of skill-based value add (prepayment analysis for asset-backed securities, currency management, trading), if applicable.
* Fixed income securities are typically utilized for defensive purposes, income generation and/or capital appreciation. Which of these purposes drives your investment philosophy and process?
* What is your competitive advantage? – add any commentary on why your firm is unique as compared to other fixed income management firms.
* Discuss your firm’s investment process (for the strategy related to this questionnaire), including the following:

Overall philosophy & approach

* + - What is the universe of fixed income securities covered and considered?
    - Is your investment process top-down, bottom-up or a combination?
    - What are the qualitative, fundamental, quantitative and technical components of your investment process? – What is the relative importance of each?
    - How are ideas generated? Please discuss any quantitative screens as well as the process for qualitative and technical analyses. Are there differences by sector?
    - What is your approach to diversification and the number of securities held? How do you utilize diversification as a means of mitigating security-specific risk?
    - What is your investment timeframe? – What level of appreciation potential over what time horizon makes an investment attractive?
    - How are investment decisions made? – Does your investment decision-making process involve a formal committee structure? Who is involved in that process and who are the final decision-makers? How formalized is your process in terms of developing documentation on investment thesis, measurement mileposts, etc? What are the steps/disciplines involved in structuring the portfolio?

Approach to duration exposure and yield curve positioning

* + - Please discuss the economic and market variables that contribute to your portfolio duration target/strategy.
    - If applicable, please discuss the process for developing and managing duration targets.
    - How do you evaluate duration exposure? Do/can you analyze the contribution to duration of the portfolio (vs. benchmark) by economic sector? – by credit quality? – by key rate duration?
    - If duration exposure is managed as a notable source for value add, please discuss the process for doing do.
    - What is your approach to yield curve positioning? – how is positioning strategy/ targets for key rate exposures established?
    - If yield curve positioning is managed as a notable source for value add, please discuss the process for doing so.

Approach to sector allocation and credit exposure

* What is your approach to evaluating credit risk? What third-party sources of credit analysis are used? Do you conduct proprietary credit analysis? – if so, please describe in detail.
* Please describe your approach to credit allocation and credit issue selection, including investment grade and high yield, if applicable.
* Are there any securities or sectors not normally held based on your investment philosophy and process (apart from client-imposed restrictions)?
* What is your approach to sector allocation and target under-/over-weights?
* Do you have a strategy for sector rotation?
* Please discuss your process for selecting individual credits/ securities.
* Describe your valuation methodology for individual securities.
* For MBS and other asset-backed securities, please discuss your approach to prepayment analysis.
* Please discuss your portfolio monitoring process, including the frequency with which overall client portfolios and individual securities are reviewed.

Approach to risk management

Please cover the following topics as well as any additional insights on how you manage risk:

* How do you quantify and manage the major sources of risk such as duration, changes in the shape of the yield curve, credit risk /changes in spreads, liquidity, prepayment and currency risks?
* What is your strategy during periods of market shock / illiquidity (dramatic swings due to macro-driven events)?
* What type of stress-testing or other risk management modeling is done on client portfolios?
* If not covered above, please discuss how your firm typically adjusts investment strategy and risk management in both rising and falling interest rate environments.
* Have recent market conditions prompted you to make adjustments to your investment process? How do you ensure the stability of your investment process during difficult market conditions?
* Under what conditions do you expect to outperform / underperform?
* Where do you see the greatest opportunities in fixed income markets at this juncture? – the greatest risks?
* What platforms / systems do you use for portfolio analytics? For performance attribution and risk management? For market intelligence? We require customized reporting; how flexible are your systems? Can you provide various duration analyses? (such as contribution to duration by sector, credit quality, key rate duration or maturity bucket, country/region)
* How do you evaluate the effectiveness of your investment implementation in terms of the timing of actual buys and sells (as opposed to trading, which is addressed later)? What does that evaluation show?
* What is your sell discipline? Please describe any quantitative and qualitative factors that are used in buy and sell decisions. What is your expected turnover rate for the portfolio? What has been your actual turnover rate in each of the last three years?
* For the strategy related to this questionnaire, please provide the range of targeted characteristics for the following measures as well as annualized return expectations (vs. preferred benchmark):

Targeted characteristics:

* Duration range (% +/- vs. benchmark)
* Convexity vs. benchmark
* Quality range
* Average quality
* Minimum quality
* Maturity range
* Maximum sector allocation
* Maximum weight in single holding
* Maximum weight in single issuer (outside U.S. Govt.)
* Number of securities

Risk/Return Expectations: (over a full market cycle, annualized)

* Excess returns (gross) vs. benchmark
* Tracking error vs. benchmark
* Information ratio (gross)
* Please show the following statistics and details to compare the strategy related to this questionnaire and your preferred benchmark for the YTD period and past 5 calendar years (if available):
  + Effective duration; yield to maturity; yield to worst; average maturity and coupon; average and lowest quality; number of issues and issuers; sector allocation; country allocation; contribution to duration by sector, credit quality and key rate duration; portfolio convexity; details on top 5 portfolio holdings.
* What firms do you consider as significant competitors? To what extent will competition effect your performance?
* 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.

**Performance**

* Provide a spreadsheet of monthly net and gross returns for this strategy, and benchmark returns, from inception.
* Please provide attribution analysis (covering duration, yield curve positioning, sector allocation and security selection) for the YTD period and 5 most recent calendar years, if available.
* Please provide examples of portfolio management decisions that both added to and detracted from alpha generation in recent periods.
* Within the last 5 years, what were the periods of best performance vs. your benchmark and what factors were most responsible? What were the main sources of value add?
* Within the last 5 years, what were the periods of poorest performance vs. your benchmark and what factors were most responsible? What were the greatest sources of detraction?
* Please provide annual dispersion analysis of your composite returns.
* Have any securities held experienced a default? – Please provide details and actions taken.
* Does your firm comply with the CFA Institute’s GIPS performance standards? Please provide the performance disclosure document for this strategy. Indicate whether or not your compliance with the GIPS standards is verified by an independent source (and name the firm and date of last verification, if applicable).
* Is your firm compliant with the CFA Institute’s Asset Manager Code of Professional Conduct? -- If not, please provide a detailed explanation.

**Trading and Operations**

* Describe your trading and back office systems/resources, your trade allocation process across client accounts and your account reconciliation process.
* Describe your firm’s information technology infrastructure.
* Do you maintain a formal cyber security policy? Please provide a description of your policy, including the oversight of information security and the process for assessing compliance. How frequently are your cyber security policies and practices reviewed?
* Are any of your operations-related activities outsourced? If so, please indicate service providers and specific activities performed. How do you evaluate the quality of services provided by outside vendors?
* Provide an outline of your disaster recovery plan. Has this been tested, and if so, what was the outcome?
* Who is responsible for trading?
* How many brokerage firms do you trade with? Who are the main ones? What criteria are used to select brokers? Are there targets for trading with MWBE-owned brokerage firms?
* Discuss trading costs and level of commissions paid. How do you ensure best execution?
* Since fixed income trading is conducted within a negotiated marketplace that is not always readily transparent, how do traders/PMs add value in the process?
* Are MBS securities traded on a pool-specific basis or TBA?
* How do you measure the effectiveness of your trading activity? Do you use an outside evaluator? What are the results of your assessment of your trading effectiveness?
* Do you participate in brokerage recapture programs and/or directed brokerage programs?

**Compliance**

* Who is your Chief Compliance Officer? Do you outsource any of your compliance activities? If so, please provide details.
* Do you have a firm compliance manual in place for all employees? Do you have a Code of Ethics?
* What is your process for monitoring employee compliance with the standards of practice you have established?
* How do you manage investment guideline compliance? Do you have an automated system for investment guideline compliance? Please describe.
* What is your policy on the use of soft dollars?
* What are your rules regarding employees trading in their personal accounts?
* Can you confirm that your internal controls are of an acceptable standard? Can you produce a written certificate from your company or your auditors that this is the case?
* Within the last 5 years, have you been audited by the SEC or another regulatory body? If so, provide dates of audits and indicate the outcome of each, including any significant deficiencies found and remedial actions.
* Is/has your firm or any key individual in your firm currently or within the last 5 years been involved in any investigations or litigation or subject to any disciplinary actions by any regulatory agency? If so, describe the issues involved and the outcome or current status.
* 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.

**Risk Management**

* Who is responsible for portfolio risk management? Describe the risk team, each individual’s responsibilities, and the role of the risk management department in your organization.
* Describe your risk management process.
* What percentage of the portfolio can be liquidated in 3 business days?
* What risk analytics/attribution system do you use?
* Describe any changes to the risk management team, systems, or process that have occurred over the past 5 years.

**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?

**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?

**Management Fees**

* Provide the firm’s standard fee schedule.
* Do you have performance-based fee arrangements?

**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.

**Other**

* List the types of insurance coverage your firm maintains, including the carrier(s) and coverage amounts.
* Provide most recent audited annual financial report.
* Provide your most recent Form ADV, Parts 1 and 2.