

**MFDA Services Corporation**  
**REQUEST FOR PROPOSAL**  
**Investment Management Services**

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## **SECTION I: BACKGROUND & NATURE OF SERVICES REQUIRED**

### **1. Michigan Funeral Directors Association**

Founded in 1880, the Michigan Funeral Directors Association (MFDA) is a private trade association, and is the nation's oldest organization of funeral professionals. MFDA currently represents roughly 1100 funeral directors serving 500 funeral homes statewide, representing over 70% of all mortuary science licensees in Michigan.

The MFDA Services Corporation (MFDASC) is MFDA's affiliated corporation which serves as an escrow agent for funds received by funeral homes in connection with prepaid funeral contracts. The MFDASC is seeking proposals from firms to provide prudent investment management for its Master Escrow Plan® (MEP) with assets of approximately \$150 million.

### **2. Master Escrow Plan**

The Master Escrow Plan® contains the money paid in advance for funeral goods and services. Michigan Law requires that this money shall be held in an escrow account until after the services have been provided or the funeral contract is cancelled. The purpose of this legal requirement is to assure that assets are available to enable the funeral home to provide the funeral goods and services after death occurs. The investment of these assets is governed by the Michigan Prepaid Funeral and Cemetery Sales Act, Act 255 of 1986, MCL 328.211 *et. seq.*, and Michigan Prudent Investment Rule as found in sections 1501-1511 of the Michigan Estates and Protected Individual Code, Act 386 of 1998, MCL 700.1501-1511.

### **3. Purpose and Scope of Services**

The MFDASC is seeking (a) qualified firm(s) to provide the investment management of these assets and to whom the MFDASC can delegate fiduciary responsibility as per section 1510 of the Michigan Estates and Protected Individuals Code, MCL 700.1510.

#### **a) Investment Management**

The assets are currently invested among four portfolios of varying risk/reward characteristics consisting of individual stocks, bonds mutual funds and/or CDs. A successful proposer may continue with this approach; however, an alternative strategy utilizing mutual funds and/or ETFs would be acceptable.

While time-horizon is critical to determining a prudent investment strategy, the time horizon for these assets is unknown since it is contingent upon the death of each individual contract beneficiary. Most contract holders are over 65 years old at the time the contract is purchased, and contracts come due in these approximate timeframes:

30%	< 3 years
50%	3 – 5 years
15%	5-10 years
5%	Greater than 10 years

A proposal will receive favorable consideration if it includes investment advice or investing system whereby Funeral Directors may better manage how the assets of each contract are invested so as to meet future obligations.

For additional information see Appendix A & B

**b) Custodian**

The successful Proposer must be able to custody the assets with a custodian capable of providing daily unitization values of each portfolio, and provide these values to the record keeper by 10:30 a.m. the following business day.

It is preferred that the custodian is capable of accepting a file and executing ACH transactions to/from the Funeral Directors' financial institution.

**SECTION II: PROCESS FOR SUBMISSION OF PROPOSAL**

**1. Minimum Qualifications for the Proposal**

The Proposer must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy any of the minimum qualifications will result in the immediate rejection of the proposal.

The MEP is subject to the Michigan Prudent Investor Act, and not ERISA. However, it is likely that most fiduciary investment managers act under ERISA standards so for the sake of simplicity ERISA descriptions are used below.

- a. The firm must be capable of charging its fee monthly.
- b. The firm must have been in business at least five (5) years as of December 31, 2012.
- c. The firm must have at least six (6) clients for which it acts in a discretionary fiduciary capacity for a minimum of three years.
- d. The firm must be registered as an investment advisor under the Investment Advisor Act of 1940. It must be prepared to acknowledge in writing that it has a fiduciary obligation in managing these assets.

- e. The firm must carry adequate fiduciary liability insurance coverage or must commit to obtain it before a contract is entered into with MFDASC.
- f. The firm must meet the eligibility requirements under ERISA 411.

## **2. Preparation and Submission of Proposal**

### **a) Format for Proposal**

The proposal must be page numbered and organized in the following format:

- i. Letter of Transmittal
- ii. Response to Questionnaire
- iii. Philosophy and Approach
- iv. Additional Documents and Materials
- v. Fees

### **b) Letter of Transmittal**

The individual(s) who is (are) authorized to bind the Proposer contractually must sign a cover letter, which will be considered an integral part of the proposal. This cover letter must indicate the signer is so authorized and must indicate the title or position that the signer holds in the Proposer's firm. An unsigned cover letter may cause the proposal to be rejected. The cover letter must contain the following:

- i. The Proposer's name, address, and telephone and fax number.
- ii. The name, title & position, telephone number and email address of the individual signing the cover letter.
- iii. A statement indicating the signature is authorized to bind the Proposer contractually.
- iv. The name, title or position, and telephone number of the primary contact for the proposal, if different from the individual signing the cover letter.

### **c) Response to Questionnaire**

Please respond to all questions in the order that they are presented in Section III of this Request for Proposal. Indicate the question number and restate the question prior to providing your response. Provide any additional comments or information that you deem appropriate.



Please be clear and specific in your responses to the questions. Incomplete or misleading responses may lead to rejection of the proposal and elimination of the firm from the search process. MFDA reserves the right to waive or permit correction of any minor inconsistencies, errors or omissions prior to the final evaluation of the proposal, and to ask for clarification on any issues, or to take any other measures with respect to this RFP in any manner necessary to serve the best interests of MFDA and the MEP.

**d) Cancellation of RFP**

MFDA reserves the right to cancel this RFP at any time, and to reject any and all proposals submitted in response to this RFP if MFDA determines such action or actions are in the best interest of the Plan. This RFP in no manner obligates MFDA to the eventual procurement of services until confirmed by a written contract. Progress toward this end is solely at the discretion of MFDA and may terminate at any time prior to the signing of a contract.

This procurement and any agreement with proposers that may result shall be governed by the laws of the State of Michigan. Submission of a proposal constitutes acceptance of this condition.

The deadline for submission of the proposal is **4 P.M. on January 4, 2013**. Please submit one complete electronic copy and 3 additional paper copies of the proposal to:

Mark Mensack  
108 Weston Drive  
Cherry Hill, NJ 08003  
Email: [MFDA.RFP@Gmail.com](mailto:MFDA.RFP@Gmail.com)

A proposal may be withdrawn and resubmitted prior to the proposal deadline. Any cost incurred in the preparation, submission or presentation of the proposal will be borne solely by the Proposer.

**3. Timeline for Search and Selection Process**

28 November	RFP distributed
14 December	Notice of Intent due via e-mail
17 December	Deadline for questions or clarifications
4 January	4 p.m. deadline for submission of proposals
28 January	Screened proposals/decision matrix submitted to Committee
8 February	Proposal evaluations completed by Committee

@ 18 February	Interviews of finalists (Conference/web-call or in person)
25 February	Final Selection Announced
1 April	Implementation date for new manager

*MFDA will make best efforts to follow this timeline but reserves the right to amend it as necessary.*

#### **4. Inquiries and Communications**

MFDA has engaged Mark D. Mensack, LLC. to assist in the RFP and selection process. We ask that you please refrain from contacting MFDA or MFDASC staff during the search process. All questions regarding the intent or content of this RFP or the proposal process must be directed in writing to Mark Mensack via email at [Mark@PrudentChampion.com](mailto:Mark@PrudentChampion.com)

In order to avoid any potential conflict of interest, an evaluation period is immediately in effect which applies to any interested service provider. During the evaluation period MFDA and MFDASC staff will not accept meals, travel, hotel, or other types of gifts from any interested service provider or communicate with a service provider with respect to the subject matter of this RFP.

### **SECTION III: INFORMATION TO BE PROVIDED**

#### **PART A: QUESTIONNAIRE**

##### **1. Name and Contact Information**

- a) What is the current name of the firm?
  - i. If the name has changed, what was the previous name?
  - ii. What was the original name of the firm when it was founded?

- b) Please provide the following information on the firm:

Address of Head Office:  
 Phone Number:  
 Firm's Website:

- c) Please provide the following information on the primary RFP contact for the firm:

Name:  
 Title:  
 Phone Number:  
 Fax Number:  
 Email Address:

## **2. History, Ownership and Organization of the Firm**

- a) Please provide a brief history and background leading to the founding and/or acquisition of the firm including: When the firm was founded or established? Who were the founders? If the firm was subsequently acquired by another company or companies, when did this take place? What is the name of the current parent company?
- b) Have there been any significant changes in the firm's ownership, structure or organization over the past three years? What significant changes, if any, do you anticipate in the future?
- c) Please list the location of all offices and the number of employees in each office. Indicate the office which would service this plan.

## **3. Services**

- a) Please list the specific services that the firm provides when assuming fiduciary status.
- b) How long has the firm been providing these services?
- c) Please indicate the percentage of the firm's assets under management in each category:
  - i. ERISA 402(a) Named Fiduciary and/or ERISA 3(21) "Full Scope" Fiduciary
  - ii. ERISA 3(38) Investment Manager
  - iii. Other fiduciary status
  - iv. Non-fiduciary services

## **4. Independence and Objectivity**

- a) If the firm or any affiliate provides non-fiduciary services, please explain briefly what policies or procedures the firm has established to avoid or limit any potential conflicts of interest that could arise in providing advice to clients with which there is a fiduciary relationship.
- b) Does the firm or an affiliate provide any services to, or receive any compensation from, investment managers, including but not limited to: (i) charges for inclusion in firm's database, (ii) conference fees, (iii) brokerage commissions, etc.? If so, please describe briefly the nature of these services and compensation.
- c) What are the top three service providers the firm currently utilizes:
  - i. Custodians

- ii. Third-party Administrators
  - iii. Record-keepers
  - iv. Investments
- d) Does the firm have any arrangements with broker-dealers under which it, or an affiliated company, will benefit if investment managers place trades for their clients with such broker-dealers?
- e) Does the firm accept any sort of revenue sharing to include, but not limited to 12b-1 fees and Sub-TA fees. If so, please explain briefly how it ensures that this money is used and accounted for.

**5. Conflict of Interest**

- a) Please disclose any potential conflicts of interest that may arise from the firm accepting this engagement, including the activities of any affiliated, subsidiary or parent company.
- b) Has the firm or anyone in the firm provided any gifts or other remuneration, or paid any expenses for travel, hotel, meals or entertainment for or on behalf of any MFDA or MFDASC employee during the past 12 months. If so, please describe the amount and purpose of the expenses.
- c) Please describe the nature of any professional relationship that the firm or anyone in the firm has had with the MFDA or MFDASC during the past three years.

**6. Experience**

- a) Please provide a breakdown of the number of accounts by asset size with which the firm currently works:

				Under \$1m	\$1-3 m	\$3-5 m	\$5-10 m	Over \$10m
Defined Benefit Plans								
Corporate 401(k) Plans								
Union/Taft-Hartley Plans								
Endowments, Foundations & Non-profits								

- b) Please provide a breakdown of the length of your current client relationships for which the firm acts in a fiduciary capacity:

Less than 1 year

1 – 5 years



5 – 10 years

Over 10 years

- c) How many client relationships were terminated within the last three years?
- i. What was the total value of assets?
  - ii. In how many cases of termination was the firm dismissed outright or the contract rebid and the firm not retained or not asked to bid?

## 7. Professional Staff

- a) Please indicate the number of professional staff that the firm currently employs in each of the following categories: Lead Consultants, Consultants, Analysts, Firm Management, Economists, Marketing, Analytics/Systems, Other. (Each person should be assigned to only one category.)
- b) Please indicate the total turnover in professional staff during the last three years: Hired, Terminated, Resigned, Retired.
- c) What is the average number of clients per consultant? Does the firm have a maximum limit on the number of clients assigned per consultant?
- d) What professional designations do the professional staff currently hold?
- e) How is the professional staff compensated; salary, bonus, commission, other?
- f) How many professional staff will be assigned to this account?
- g) Please provide the following information on the primary contact and, if applicable, the assistant contact to be assigned to this account:
  - i. Name
  - ii. Title
  - iii. Role
  - iv. Years of institutional investment experience
  - v. Years of investment consulting experience
  - vi. Years with the firm
  - vii. Educational qualification
  - viii. Number of accounts as lead consultant
  - ix. Number of accounts as support consultant

- h) Please provide the name and title and/or function of the other members of the firm to be assigned to this plan.

## **8. Investment Management**

- a) How long has the firm been acting as an ERISA 3(38) Investment Manager, and /or assuming fiduciary responsibility as per Section 1510 of the Michigan Prudent Investor Act (or similar state law.)
- b) What is the firm's opinion on actively vs. passively managed mutual funds, ETFs, individual stocks & bonds?
- c) Does the firm provide model portfolios? If applicable, how does the model define and measure risk?
- d) If applicable, please provide performance, risk and underlying investments of each model for the 1, 3 and 5 year timeframes. Please include the performance and risk of the appropriate index for each model.
- e) What percentage of your portfolios are typically allocated to cash?
- f) Was the asset allocation model internally developed, or is it licensed or provided from one or more third-party vendors? Please provide the names of the third-party vendors if any.
- g) What is the firm's approach to rebalancing and making tactical changes model asset allocation?
- h) How does the firm monitor or track the compliance of the investment menu with the plan's Investment Policy Statement?
- i) How does the firm provide education and/or advice to plan participants?

## **9. Litigation and Insurance**

- a) Has the firm, or any officer, principal, or employee of the firm or an affiliated company, ever been investigated and/or charged by the Securities and Exchange Commission ("SEC"), the U.S. Department of Labor ("DOL"), or any other regulatory authority for violation of applicable laws? If so, please explain.
- b) Has the firm, or any officer, principal, or employee of the firm, ever been involved in any business litigation or other legal proceeding including bankruptcy? If so, please explain and indicate the current status of the litigation.

- c) Does the firm, or any officer, principal, or employee of the firm, have any lawsuits pending against it concerning the delivery of investment consulting or related services for any client? If yes, please explain.
- d) Please provide the level of insurance coverage that the firm carries for errors and omissions, and fiduciary or professional liability. For each type of insurance, please indicate:
  - i. The name of the insurance carrier.
  - ii. Whether the coverage is on a per client basis or applies to the firm as a whole.

#### **PART B: PHILOSOPHY AND APPROACH**

- 1) What is the firm's overall philosophy?
- 2) State as clearly as possible the firm's investment philosophy.
- 3) What are the most crucial issues to consider in establishing investment policy for a fiduciary account?
- 4) Describe the plans for managing the future growth of the firm, including limitations, if any, on the number of clients that the firm intends to accept.
- 5) Explain how the consulting team assigned to this plan would function, including primary consultant, back-up, quality control and support services.
- 6) How would you suggest that we measure and evaluate the potential performance of your firm as a fiduciary investment manager as per section 1510 of the Michigan Estates and Protected Individuals Code, MCL 700.1510? Is your firm prepared to accept the obligations imposed by subsection 3 of section 1510 if selected?

#### **PART C: ADDITIONAL DOCUMENTS AND MATERIALS**

In addition to the information requested in the RFP, please submit a copy of the following additional materials and documents:

- 1) An organization chart of the firm, parent and all subsidiary and affiliated companies.
- 2) Biographies of the firm's professional staff to be assigned to this account.
- 3) The latest Annual Report or Statement of Financial Condition.
- 4) The most recently filed SEC Form ADV, Parts I and II.
- 5) A copy of the firm's contract(s) used when assuming fiduciary status.
- 6) A copy of the firm's policies and procedures related to Conflict of Interest.

- 7) A sample Investment Policy Statement the firm has developed for fiduciary accounts.
- 8) A sample presentation on investment education provided to plan participants.
- 9) The firm's standard marketing brochure that describes the firm's products and services.
- 10) Any other information you feel would be necessary to gain a complete understanding of the firm and the services it provides.

Please provide as reference the names of three (3) clients, one of whom must have assets of at least \$25 million, for which the firm has provided services for at least three years.

For each reference, please provide the following information:

Name of Account:  
Contact Person:  
Address:  
Phone Number:  
Email Address:

#### **SECTION IV: FEES**

- 1) Please include an itemized breakdown of all fees and expenses including, but not limited to advisory fee, and investment expense including any transactions costs. Please include any fees charged by the custodian including fees for any services included here such as daily unitization values.
- 2) The proposed fees shall be guaranteed for a minimum of two years after which any changes can be negotiated with MFDASC. The method of payment will be set forth in the contract. Once the consultant is selected, the fee may be negotiated further depending on the variance from other proposals received. In no case will the negotiated fee be higher than the fee contained in this proposal.

All questions regarding this RFP can be e-mailed to [Mark@PrudentChampion.com](mailto:Mark@PrudentChampion.com)



## APPENDIX A – Additional Information

These plans/contracts can be made on a guaranteed or a non-guaranteed basis. A guaranteed contract fixes the cost of the funeral goods and services such that there is no additional charge for those goods and services upon delivery. With a non-guaranteed contract there can be additional costs. The assets involved in these contracts can be invested in a Qualified Funeral Trust (QFT) or a Non-qualified Funeral Trust (NQFT.) In a NQFT, income is taxed to the funeral contract purchaser. The election of a QFT, however, makes the trustee or escrow agent liable for the tax. Principal and income derived from a prepaid contract may be comingled with principal and income from other contracts, however, a separate accounting must be maintained for each contract in the name of the contract beneficiary.

The assets deposited under a non-guaranteed contract must be invested in one or more interest bearing accounts in a depository. These assets are currently invested in certificates of deposit.

The assets deposited under a guaranteed contract must be invested in accordance with section 7803 of the Michigan Estates and Protected Individuals Code, MCL 700.7803, except that the assets may not be used to purchase life insurance or annuities. Currently each individual funeral director can choose between four managed portfolios; CDs, growth, growth & income, and income. Funeral Directors have the discretion to change the investment strategy, or tax status, of any contract. In general, funeral directors select more conservative investments for contracts held by older beneficiaries. The MEP is not offered as an investment plan for funeral directors. Its purpose is to provide a source of funds with which to perform the funeral contract after death occurs. Upon performance, the funeral director is entitled to the principal and income allotted to the deceased beneficiary's account. The funeral director is obligated to provide the goods and services whether or not the funds in the account are sufficient to cover his or her costs.

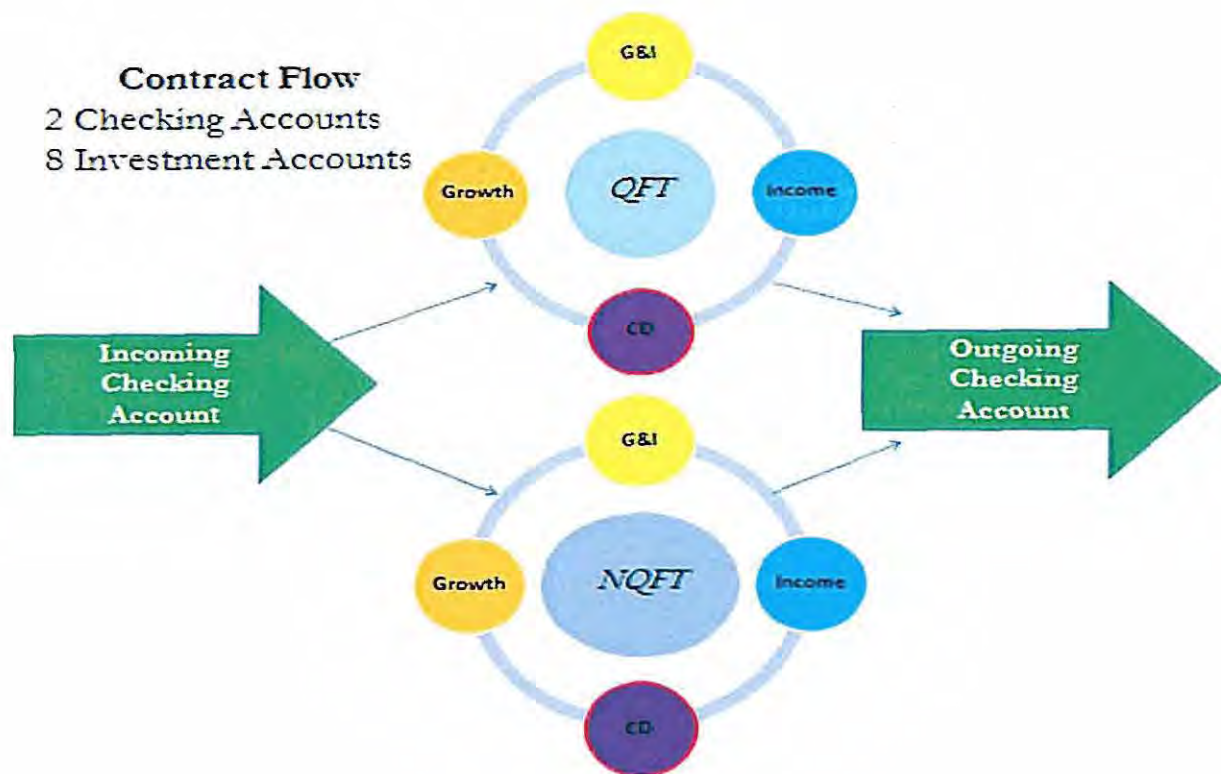
All assets are currently managed by Merrill Lynch. The growth, growth & income and income portfolios are invested in Wealth Diversified Portfolios offered by Blackrock. The CD portfolio is managed by a Merrill Lynch Financial Advisor.

The current breakdown of assets is:

	Qualified Funeral Trust	Non-qualified Funeral Trust
<b>Growth</b>	\$2,300,000	\$5,700,000
<b>Growth &amp; Income</b>	\$18,600,000	\$43,800,000
<b>Income</b>	\$11,800,000	\$23,200,000
<b>Certificates of Deposit</b>	\$2,800,000	\$14,200,000
	\$35,500,000	\$86,900,000
<b>Cash in checking among all accounts</b>	\$ 29,189,321.00	

The record-keeper is Freedom One Financial Group, Clarkston Michigan.

Below is a visual representation of the MEP:



## APPENDIX B: Limited List of Services

The MFDASC expects the services to be rendered to include, but not limited to:

1. Prepare and present an annual comprehensive plan review to include all information necessary for the MFDASC Leadership to fulfill its residual fiduciary responsibility as plan sponsor.
2. Provide monthly statements. And provide detailed quarterly reports on the status of the plan to include investment performance and minutes of investment committee meetings.
3. Respond to inquiries in an appropriate and timely manner.
4. Facilitate communication between MFDASC and the record keeper, and the custodian.
5. Report any significant changes in the firm's ownership, organizational structure and personnel in a timely manner.
6. Provide investment education in order for the funeral directors to better manage how the assets of each contract are invested so as to meet future obligations, although investment advice or an investment system (e.g. glide slope) is preferable.
7. The MFDA enjoys the following services from the current investment advisor:
  - a. A single point of contact familiar with the program.
  - b. Attendance at the annual conference in order to explain the program to Funeral Directors.
  - c. Assistance with marketing the program.