

# Homework Before the Search

Select what type of product you want first, then select a provider

- Conducting an open search leads to difficult “apples to oranges” comparisons
- If you cannot narrow your search to a specific type of product, at least determine what terms and features are critical and specify them in your RFP

# Critical Terms and Features

- Type of “guarantee”  
(explicit or implicit)
- Number of guarantors  
(single or pool)
- Access to collateral  
(exclusivity of claims)
- Backstops  
(FDIC, guaranty funds)
- Rate structure  
(portfolio rate vs. deposit structure)
- Portfolio characteristics  
(duration, credit quality)
- Rate-setting process  
(transparency, responsiveness, limits)
- Exit provisions  
(liquidity, fees, market adjustments)
- Fee transparency
- Look & feel to participants  
(simplicity, transfer restrictions)
- Fiduciary complexity  
(ability of governance resources and expertise)

# Common Tradeoffs

Different product structures exist because there are tradeoffs among the critical features. For example:

- Money market fund
  - + Simple, liquid, transparent, low portfolio risk, regulated
  - Low return expectation, no backstop
- GIC Pool
  - + Higher return expectation, transparent
  - Exit restrictions, correlated risks, no backstop, collateral conflicts
- Synthetic GIC
  - + Higher return expectations, transparent
  - Requires scale, correlated risks, complex to manage, no backstop

# Comparing Alternative Vendors

- Guarantors
  - Financial strength ratings
  - Depth and breadth of firm's balance sheet
  - Business profile
- Asset Managers
  - Quality as a bond manager  
(experience, performance, risk control, etc)
  - Experience in negotiating with guarantors

# Common Pitfalls

- **Excessive focus on crediting rate / performance**  
As a rule, higher interest rates come with higher risk
- **Excessive focus on relationship**
  - Many products require long-term commitments
  - People you like & trust today may not be there when problems arise
  - Read the contract carefully, especially the exit provisions!
- **Lack of alternatives in bundled platforms**  
If you bundle, make sure your provider offers at least two credible alternatives