

LACERS High Yield Fixed Income and Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan Mandate RFP Questions

- 1) Regarding the qualification that a proposed product's assets under management must be of sufficient size such that LACERS' expected mandate size would not comprise more than 25% of the proposed product assets inclusive of LACERS assets, is there an expected allocation amount for each manager? Is there a minimum asset level LACERS is looking for? Could you please provide your definition of "product's assets under management"? Is this total AUM at the strategy level, or at the granular strategy vehicle level.**

As the RFP states, LACERS anticipates awarding portfolio sizes up to \$216 million. We reserve the right to determine the actual portfolio size and number of managers hired. The minimum requirement of \$50 million under management as of 12/31/2018 establishes the minimum amount each firm must have in the proposed product/strategy in order to be considered for a mandate. Our definition of "product assets under management" includes all assets at the strategy level and not at the strategy vehicle level. Therefore, strategy level assets should include assets in separate accounts, mutual funds, commingled funds, etc. that use the same investment team and process. Carve outs from other portfolios will not be considered as "product assets under management".

- 2) Is there flexibility around the GIPS compliance and 5-year track record qualifications for established managers for the mandate? Are we able to use our firm's high yield carve out which is derived by separating the high yield credit segment from our total holdings for this RFP in order to satisfy the 5-year track record?**

There is no flexibility around the GIPS compliance and 5-year track record requirement. Track records that represent a carve out of another strategy will not be accepted. Emerging firms with less than a 5-year track record may supplement their track record with one from a prior firm, if that track record can be attributed to the portfolio manager for the most recent 36-month period of the five-year verifiable experience requirement. Firms must have a 5-year track record as of 12/31/2018.

- 3) Will you consider a manager of emerging managers for this search? If so, can the sum of assets managed by our underlying managers in the High Yield strategy be considered to satisfy the requirement of LACERS' expected mandate size not exceeding 25% of total product assets?**

Yes, we will consider a manager of emerging managers for this search. We will look at the assets under management by the firm offering the product and not by the underlying investment firms included in the product.

- 4) Our high yield and bank loan strategies have historically not been formally combined into (or marketed as) a single "hybrid" strategy, nor is there a formal "hybrid" composite and track record. Can we qualify for the hybrid mandate using a combination of the separate verified track records of the high yield and bank loan strategies?**

No, we will not consider a proposal where the track record does not represent a specific product. Simply providing a track record for high yield and a track record for

bank loans will not qualify for the hybrid mandate. Additionally, combining separate track records in any fashion will also not qualify for the hybrid mandate.

- 5) **Is it your preference for an investment manager to submit only one strategy for the High Yield Fixed Income and Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan mandates? If we have multiple strategies that meet the minimum qualifications and are appropriate for the mandates described in the RFP should we submit them, or would you prefer that we keep it to one strategy? Is it preferred to submit two separate proposals and NEPC questionnaires or modify the questionnaire where needed to address both strategies?**

We will consider more than one proposal from an organization if multiple strategies exist and meet the minimum qualifications. Please submit different proposals, if proposing different strategies. It is our preference not to modify the questionnaire to account for more than one product/strategy.

- 6) **Can the portfolio manager use derivatives in the portfolio to hedge out market specific or macro risks in either of the High Yield Fixed Income or Hybrid High Yield Fixed Income/Bank Loan mandates?**

Please refer to LACERS Investment Policy Statement, Section V. F. page 172, for our Derivatives policy.

- 7) **It appears that we need to complete the actual RFP, the Appendices (all 4) and the Questionnaire, correct?**

Yes, in order to be considered for this search the RFP, all appendices and the questionnaire will need to be filled out and submitted. Additionally, the Warranty and Affidavit will need to be notarized.

- 8) **Will a proposing firm be considered if they fulfill 10 of the 11 minimum qualification requirements?**

All 11 minimum qualifications must be met.

- 9) **Would a multi-strategy fixed income vehicle that includes US high yield and US bank loans, but also allocates to other US and Global corporate credit, structured credit and real estate debt sectors be considered? Would any of these sectors have maximum ranges?**

We will not consider multi-strategy fixed income or hedge fund products under this RFP.

- 10) **Would a strategy be allowed to invest in non-benchmark securities? Would LACERS consider strategies whose investment process are not benchmark constrained but fit the minimum requirements and use the appropriate benchmarks as a performance benchmark? Will a basket of loans be considered in the non-hybrid high yield fixed income strategy? Is the high yield fixed income strategy restricted to 100% high yield?**

We are willing to provide some latitude to invest outside of the benchmark, however, we will need to understand which non-benchmark securities and how much before we can fully answer this question.

11) Would there be a liquidity requirement for outflows and inflows needed for the proposed strategy?

Yes, we will need the ability to rebalance portfolios on a regular basis. We will not consider any strategy that includes a lock-up.

12) In addition to the stated alpha and information ratio requirements, would there be any tracking error restrictions relative to the appropriate High Yield/Bank Loan benchmark chosen?

None is contemplated at this time.

13) Would a responding manager be able to put a minimum account size mandated for a separate fee proposal?

Yes, if your fee proposal is depending upon a minimum account size, please indicate in your proposal.

14) Could you please clarify what exposure you are seeking to cover with regard to Fiduciary Liability? For instance, we currently maintain fiduciary liability insurance on behalf of our firm; however, we do not currently maintain fiduciary liability insurance which would cover third-party clients.

Any manager who is awarded this mandate would be in a fiduciary relationship with LACERS and serving as a fiduciary on behalf of members and beneficiaries. Any final contract will require mandatory terms for indemnification of certain claims made against LACERS, including breach of fiduciary duty.

15) It appears the mandate that allocates between high yield bonds and loans is focused on U.S. dollar denominated holdings based on the proposed benchmarks. Will you confirm if broader mandates allocating across U.S. and European below investment grade corporate credit will be considered?

We are looking for a U.S. dollar denominated portfolio.

16) Regarding the definition of an Emerging Manager, is any consideration given to smaller teams within a larger organization (i.e., a fixed income team managing strategies with less than \$2 billion in total assets), or is this only applicable at the firm level?

In order to qualify as an Emerging Manager, firm-wide assets under management must be less than \$2 billion at the time of hire.

17) What is the requirement of the manager with the Sample IMA provided in the exhibit? Would you like us to complete? Can we submit amendments to the Sample IMA?

The sample IMA was provided as an indication of the contract LACERS would provide to a selected firm. There is no requirement that firms fill out the sample IMA.

- 18) **Is the benchmark for the Hybrid high yield FI/US floating rate loan mandate 50% bonds and 50% loans? The document only references "blended" – could that blend be 75/25 or 90/10?**

Our preference is for a 50/50 mix.

- 19) **In minimum requirement #8, what does the "mandate-appropriate benchmark" apply to? Is it the blended high yield/loan benchmark or could it be the specific benchmark of the proposed product (i.e., just the Credit Suisse Leveraged Loan Index)?**

For high yield mandates we will use the Bloomberg Barclays U.S. High Yield 2% issuer Capped Index. For hybrid mandates, we will use a 50/50 combination of the Bloomberg Barclays U.S. High Yield 2% issuer Capped index and the Credit Suisse Leveraged Loan Index. Note, that if the specific benchmark of the proposed product differs from our benchmark, please indicate in your proposal.

- 20) **Is the product allowed to use leverage?**

No.

- 21) **Will a basket of loans be considered in the non-hybrid high yield fixed income strategy? Is the high yield fixed income strategy restricted to 100% high yield?**

LACERS may consider products that don't hold 100% high yield bonds.

- 22) **Could you please advise if there is any flexibility with the minimum qualification that calls for 60% of the rolling four quarter information ratios to be positive versus the benchmark for the past five years?**

We will be calculating the rolling four quarter information ratios as of 12/31/2018 and as of 3/31/2019. For clarification, we will calculate rolling one year information ratios over the past five years.

- 23) **Please confirm if the performance objective to outperform during a credit cycle and/or 3-5 year period by 50 bps annualized (net of fees) is a target or firm requirement.**

This performance objective is a target.

- 24) **Please confirm that this mandate does not require a performance based fee.**

No, this mandate does not require a performance based fee.

- 25) **Regarding question 28 of Appendix A, are we required to comply with the Business Inclusion Program requirements or is it only encouraged?**

We strongly encourage firms to comply with this requirement.

- 26) **Regarding Attachment A – Confidentiality & Non-Disclosure of Member Information, please confirm whether confidential information may be disclosed to third party vendors in the ordinary or customary course of business and when requested by a regulatory authority or is otherwise required by law in order to facilitate compliance with such requirements.**

Confidential information may only be disclosed to third-party vendors where a comparable legal obligation exists to maintain the confidentiality at issue (e.g., NDA, sufficient terms in your contract with the third party). Confidential information may be shared when requested by a regulatory authority and where otherwise required by law.

- 27) **Is there any preference for an up-in-quality strategy versus unconstrained?**

No.

- 28) **We do not have portfolio characteristics data between 2002 and 2010. Will this preclude us from ongoing consideration for this mandate or cause us not to meet the minimum qualifications?**

No.

- 29) **Does LACERS require their external investment managers to file FPPC Form 700?**

A City Contractor who exercises primary responsibility for the management of public investments (e.g., principal investment officer or chief financial manager) must complete the Form 700.

- 30) **Could LACERS provide a sample investment guideline for the mandate?**

LACERS works with each investment manager to develop customized investment manager guidelines.

- 31) **With respect to the Proposer Disclosure Form regarding contact with LACERS' 2018 SEI Filers made during the restricted period, could you clarify how the "restricted period" is defined? Specifically, what time frame(s) are being referenced here? Would this also include unplanned, incidental meetings at industry conferences?**

The Restricted Period begins the day the RFP is released and continues until a contract is executed. All firms that are potential candidates for the award of a contract, or extension of an existing contract, are prohibited from engaging in any direct or indirect marketing of their services except through the process set forth in the RFP. This includes a prohibition on conversations about the contract or the process to award it, but does not exclude conversations with restricted sources about general topics at group social events, educational seminars, conferences, or charitable events. All respondents are required to submit a statement listing all contacts with Board Members, Staff and Consultants during the Restricted Period.

- 32) **With respect to Paragraph PSC-32 ("Business Inclusion Program") of the Standard Provisions for City Contracts, could you provide more information on what, if any, outreach efforts the Proposer would be expected to**

undertake for the mandate? Has LACERS set any participation goals for MBE/WBE firms? Paragraph PCS-32 also references a possible exemption to this requirement; could you explain how such exemption would be obtained? How would this requirement apply to a Proposer that does not subcontract any part of its investment management program?

Proposers responding to this RFP are exempt from the City's Business Inclusion Program.

- 33) **On Page 6 "Fee Proposal", you ask that we assume a mandate size of \$150mm to \$250mm for the purposes of fee reporting. Do you anticipate allocating less than \$200mm to a manager (excluding managers who are considered "Emerging Managers")?**

As the RFP states, LACERS anticipates awarding portfolio sizes up to \$216 million. However, we reserve the right to adjust these amounts as we see fit.

- 34) **Exhibit 3 – Clients and References asks the Proposer to provide references of five public pension plan clients. In addition to publics, would LACERS also accept other entity types as client references?**

Yes.

- 35) **Exhibit 4 – Standard of Conduct: The "Standards of Conduct" are asked both as Exhibit 4 and within the Questionnaire (Exhibit 6). Is this an intentional duplication? Further, within the Questionnaire, under "Policies" we are directed to "provide as Exhibit 6 any written policies/procedures to address conflicts of interest." Should this be referencing Exhibit 4 or would LACERS like copies included twice – both in Exhibit 4 and Exhibit 6.**

Yes, it is an intentional duplication. Please include as Exhibit 4 and as part of Exhibit 6.