

LACERS Small Cap 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 ranging from \$75 million to \$150 million. However, we reserve the right to adjust these amounts as we see fit. 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) **Does the mandate plan to grow beyond the initial funding?**

LACERS may adjust portfolio sizes beyond the initial funding.

- 3) **Is there flexibility around the GIPS compliance and 5-year track record qualifications for established managers for the mandate?**

There is no flexibility around the GIPS compliance and 5-year track record requirement. 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.

- 4) **Is there an exact bid number/description of contract/awarding authority that we should use to fill out both CEC Forms 50 and 55?**

On Forms 50 and 55 please state, "Investment Contract".

- 5) **Regarding Attachment 3, Marketing Cessation Policy, and required submission of Attachment 4, Proposer Disclosure, does the restricted period referred to begin the day this RFP was released (2/25/2019) and thus excludes any contact with investment staff at conferences during recent months? Do discussions at investment conferences constitute a business relationship such that they need to be disclosed?**

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 generic 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.

- 6) **Should all required items in Section I-IV be put into one pdf document? The questionnaire (Exhibit 6) states it is to be submitted as a Word document and not as a PDF. Are there any format restrictions for the other required documents?**

There are no format restrictions on the documents, with the exception of Exhibit 6. Our preference is to have all items, with the exception of Exhibit 6, in one pdf document. However, we will accept proposals that include all required documents regardless of how the proposer chooses to present the material.

- 7) **Will SMID products be considered for this mandate?**

LACERS seeks active management of one or more of the following long-only, publicly-traded U.S. Small Cap Equities investment strategies: Small Cap Core Equities, Small Cap Growth Equities, and Small Cap Value Equities. Proposed strategies must be benchmarked to the Russell 2000 Index, Russell 2000 Growth Index, or Russell 2000 Value Index. It is LACERS intent to allocate assets across the core, growth, and value styles and to hire more than one firm.

- 8) **We are a manager of emerging managers firm and we construct portfolios of emerging managers (sub-managers) based on client goals. Are these sub-managers in this construct technical legal "Subcontractors" as referenced in the RFP documents?**

No, LACERS will not consider the sub-managers in a fund-of-funds product as subcontractors.

- 9) **How many firm/product references need to be provided both in the LACERS document and the NEPC DDQ? Would not providing references be cause for being disqualified?**

Our preference is for a minimum of three references.

- 10) **The questionnaire (Exhibit 6) asks for an Excel spreadsheet detailing historical AUM. In what intervals should this data be submitted, calendar year or by quarter? How should we display the AUM of the strategy and firm? How far back do you want to see data?**

We would like to receive the AUM data on a calendar year basis going back at least ten years or for the history of the product if less than ten years. Please include a tab for firm-wide data and a tab for the strategy-only data. We have attached a sample.



Historical AUM.xlsx

- 11) **For Minimum Qualification #8 regarding information ratio, if we meet this requirement as of 3/31/2019 can we submit a proposal or does it have to**

be as of 12/31/2018? Are you looking at quarterly trailing information ratios for the previous 60 months or a different time period?

We will be calculating the rolling four quarter information ratios as of 12/31/2018 and as of 3/31/2019.

- 12) **We currently manage a portfolio for another Los Angeles City public pension plan. Based on the Fee Aggregation clause in our existing contract, will our proposed fee be discounted by 10%, or if our offered rate is already more than 10% off of our standard fee schedule, will this rate suffice?**

Please provide a fee proposal per instruction in Exhibit 2. Fee terms are negotiated during the contracting phase.

- 13) **Please confirm that the fee submitted should reflect ONLY the published fee and not an actual proposal for this particular mandate.**

Please provide a fee quote for this particular mandate. If your fees are dependent on a certain asset size, then please specify in your proposal.

- 14) **Our U.S. Small Cap strategy has a 10+ year GIPS compliant/verified track record, however, the first external client to invest in the strategy occurred 9/30/2015. Would this disqualify us from participating in the search?**

If you have five years of verifiable GIPS-compliant performance history and the other minimum qualifications, then we will evaluate your proposal.

- 15) **As an Emerging Manager, should we submit two different fee proposals? One for a mandate size of \$75 million and another for 25% of the product AUM as of 12/31/2018?**

Please provide a fee quote for a mandate size that represents 25% of the product AUM as of 12/31/2018. Please specify the asset size your fee quote is based on.

- 16) **In Exhibit 3 of the RFP Search Document, you ask for the five largest public pension plans (by portfolio asset size). Do the public plans have to be in the proposed strategy or can they be in any strategy managed by the firm?**

If the firm does not have public funds in the product, please note that in the proposal. We are looking for references in the proposed product.

- 17) **In the "Firm/Product References" of the NEPC Research Manager US Small Cap Document, are you looking for investors in the proposed strategy or can they be in any strategy managed by the firm?**

We are looking for references in the proposed product.

- 18) **Does LACERS have a preference for a fundamental or quantitative strategy?**

LACERS does not have a preference for a fundamental or quantitative strategy.

- 19) **Can a firm submit a proposal for more than one strategy? We would like to submit two investment strategies from the same Quantitative Equity**

platform. Is it preferable to submit two separate responses for each strategy, or one consolidated response with clear delineation of both investment strategies?

Firms may submit a proposal for more than one strategy. If the two strategies are different, please submit a proposal for each.

- 20) **Regarding the city required forms in exhibit 7, is there a standard website or link to where we can download these? Is there a link to the diversity table? The diversity attachment within the NEPC document and the workforce composition that is included on the LACERS website both appear to ask for the same data, just different formats. Do both need to be completed or if just one, which one is preferred?**

All documents are available via <http://www.lacers.org/aboutlacers/request-for-proposals/rfp/investments/20190412-us-small-cap-equities-mandate-search/index.html> within the Appendices link of the posted RFP documents. The diversity table is also available via the Questionnaire link of the posted RFP documents. This table is for data gathering purposes only.

- 21) **With regards to the Form 700, can you clearly define who would be required to complete the form?**

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.

- 22) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix A – General Conditions, Item #32 Gender Equity in City Operations Disclosure Form, the link provided brings you to a list of directives. As we are not a minority or women owned business, does this mean that we would need to follow the directive which requires us to identify a Gender Equity Liaison and notify LACERS as well as creating a Gender Equity action plan among other items? As we’re not based in California, would we be subject to this provision?**

All proposers are to review the documents listed in Exhibit 7, Appendix A – General Conditions. The hyperlink located in item #32 is for informational purposes. All proposers are to provide completed City Required Forms and include as Exhibit 7. The City Required Forms include the Gender Equity Disclosure Form (Appendix C, Attachment 2).

- 23) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix B – Standard Provisions, PSC-21 (Ownership and License), in the case of investment management services we assume that our modeling, analysis, investment decisions and any other proprietary information would not be considered “Work Product”. Please confirm.**

Unless otherwise provided for under contract, all finished and unfinished works, tangible or not, created under the RFP contract including, without limitation, documents, materials, data, reports, manuals, specifications, artwork, drawings, sketches, blueprints, studies, memoranda, computation sheets, computer programs and databases, schematics, photographs, video and audiovisual recordings, sound

recordings, marks, logos, graphic designs, notes, websites, domain names, inventions, processes, formulas, matters and combinations thereof, and all forms of intellectual property originated and prepared by the contractor or its subcontractors under the contract constitutes "Work Product."

- 24) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix B – Standard Provisions, PSC-22 (Data Protection), please clarify the meaning of "City Data" and whether it is limited to personal information that is not otherwise publicly available?**

City Data consists of City-provided data or consumer-provided data acquired in the course and scope of the RFP contract.

- 25) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix B – Standard Provisions, PSC-22 (Data Protection), the wording "using the most secure means and technology that is commercially available", please advise whether there is a list of technology that you consider per se acceptable?**

If necessary, discussions regarding acceptable data protection means and technology can be arranged after the mandate is awarded.

- 26) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix B – Standard Provisions, PSC – 32 (Business Inclusion Program). As we are not based in California, would we be subject to this provision as this is asking contractors to use a Los Angeles based BAVN?**

All proposers are to review the documents listed in Exhibit 7, Appendix B – Standard Provisions for City Contracts.

- 27) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix B – Standard Provisions, PSC-33 (First Source Hiring Ordinance), as we are not based in California, would we be subject to this provision?**

All proposers are to review the documents listed in Exhibit 7, Appendix B – Standard Provisions for City Contracts.

- 28) **With respect to Exhibit 7 – General Conditions and Compliance – Appendix B – Standard Provisions, PSC-35 (Local Business Preference Ordinance) as we are not based in California, would we be subject to this Provision?**

All proposers are to review the documents listed in Exhibit 7, Appendix B – Standard Provisions for City Contracts.

- 29) **The minimum requirements state an "objective of outperforming the benchmark by 150 basis points (net-of-fees), annualized over a full market cycle (normally three-to-five years)". Please confirm if the performance objective is a target or firm requirement.**

This performance objective is a target.

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

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

- 31) **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.

- 32) **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.**

LACERS does not anticipate the services requested under this RFP to require the use of confidential member information. In general, all information disclosed by LACERS regarding its members and beneficiaries shall remain confidential and private and shall not be disclosed to third parties. Where use of third-party vendors is approved under the contract, those third-party recipients of confidential information are required to implement and maintain security procedures and practices to protect the personal information.

- 33) **Once the mandate is awarded, will LACERS negotiate terms for the sample Investment Management Agreement with the selected firm(s) in accordance with the typical onboarding process?**

LACERS will negotiate the terms according to the sample contract once the mandate is awarded.

- 34) **Our firm maintains Workers' Compensation coverage in accordance with the statutory requirements of the state of New York. We believe this covers the requirements under the provision of Section 3700 et seq. of the California Labor Code but would like to confirm.**

The proposer must carry the following insurance coverage or must have applied for it by contract execution: Workers' Compensation and Employer's Liability – min \$1,000,000. LACERS reserves the right to require a higher insurance coverage, if it deems necessary. Please see the LACERS' General Conditions, No. 33, Bonding, Insurance and Indemnification for evidence of insurance coverage requirements. If necessary, a discussion with the insurance professionals at the City of Los Angeles could be arranged after a mandate is awarded.

- 35) **In response to the request for disclosure regarding conflicts, will LACERS provide firms with a list of Board members, consultants and employees or are firms expected to respond with the understanding that NEPC is the consultant and by referring to the list provided and labeled Appendix A, 2018 LACERS SEI Filers?**

The list of SEI Filers is available via <http://www.lacers.org/aboutlacers/request-for-proposals/rfp/investments/20190412-us-small-cap-equities-mandate-search/index.html> via the Appendices link of the posted RFP documents with Appendix A – General Conditions.

- 36) **The Investment Policy Article XIII, Section C provides the process for identifying and restricting ESG offending securities. Does LACERS have a Geopolitical Restricted List? Are there any other types of restricted lists that would apply to this mandate? If so, could LACERS provide these restricted lists?**

LACERS does not maintain a restricted list of securities.

- 37) **The Investment Policy Statement provides the description of Small Cap Core portfolios as having an emphasis in stocks with market capitalization generally ranging from \$250M to \$3B. This section goes on to identify the Russell 2000 as the benchmark for the Small Cap Core Portfolios. Will this definition be applied to all proposals submitted?**

This market cap range is only an objective and not the actual guideline that a manager would need to adhere to. Currently, LACERS uses the Russell 2000 index as the benchmark for small cap core portfolios. We are open to other benchmarks that may be appropriate.

- 38) **With regards to Appendix D – Sample IMA: Guidelines, we did not see a sample for Appendix A, Investment Manager Guidelines. Does LACERS have standard guidelines? If so, could you provide them? If LACERS does not have standard guidelines does this mean you would like the investment manager to provide the investment guidelines for Appendix A?**

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

- 39) **With regards to Appendix D – Sample IMA: Soft Dollar: Article XIII, Section C provides a number of soft dollar related provisions pursuant to California Government Code Section 6932; specifically item 3 lists a number of soft dollar reporting requests. Please clarify the soft dollar reporting requirements under the RFP.**

The contractor shall maintain complete and detailed records of all billed services provided pursuant to soft dollar and directed brokerage arrangements. The services which may be provided by a broker-dealer pursuant to soft dollar and directed brokerage arrangements shall be clearly defined. The contractor shall disclose the following in writing to LACERS: 1) A list of all billed services provided pursuant to soft dollar and directed brokerage arrangements with respect to investment transactions for LACERS; 2) The justification for providing those services; 3) The maximum percentage of the investment transactions of LACERS planned for use in soft dollar and directed brokerage arrangements; 4) An annual statement of all billed services provided during the previous year under soft dollar and directed brokerage arrangements with respect to investment transactions for LACERS; and 5) A determination of whether each service provided under soft dollar and directed brokerage arrangements with respect to investment transactions for LACERS is proprietary or is being shared by other clients of the contractor.

- 40) **While we meet all the insurance limits listed in minimum qualification 11, it is not clear that we meet all of the provisions laid out in Appendix B, Exhibit**

1 for insurance. We would like to have a more in-depth discussion between the insurance professionals at our firm and those at the City of Los Angeles.

If necessary, a discussion with the insurance professionals at the City of Los Angeles could be arranged after a mandate is awarded.