

LACERS Core Fixed Income RFP Questions

PLEASE NOTE THAT WE HAVE CHOSEN NOT TO RESPOND TO QUESTIONS REGARDING SPECIFIC FIRM PRODUCTS AND THE SUITABILITY OF THOSE PRODUCTS FOR THIS SEARCH. IT IS UP TO EACH FIRM TO DETERMINE IF YOU HAVE A PRODUCT THAT MEETS THE REQUIREMENTS OF THIS SEARCH.

- 1) Can you provide more specificity to your definition of Core Fixed Income? What are the expectations for utilizing high yield and non-dollar denominated bonds? Do you have a cap on a percentage allocation to below Investment Grade Credits?**

This search is for Core Fixed Income mandates and LACERS will not consider a dedicated high yield, non-US dollar or structured credit portfolios for this assignment. The current Board guidelines are outlined below. However, it should be noted that many of the existing portfolios have specific guidelines that are more restrictive on the use of out-of-benchmark allocations. Here are the broad guidelines for Core Fixed Income from LACERS Board policy statement.

- (1) The total portfolio's average rating will be A or better by Moody's or Standard and Poor's.
- (2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.
- (3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.
- (4) No securities shall be purchased on margin or sold short.

- 2) On page 2 of the questionnaire, under the Product Strategy section, there is a question "Definition of Core and Core-Plus" that asks "How does the strategy define "core" and "core-plus" fixed income. Outline the edge your firm has in choosing an optimal mix between core and core-plus fixed income investment instruments. Outline your firm's experience with major sectors of the bond market including investment grade, non-investment grade, non-USD, default securities, credit down-grades, etc."**

This question seems to indicate there is an expectation that core-plus sectors be part of the submitted portfolio. We believe this to be a core fixed income search. Can you please clarify the expectation around core-plus investments?

This search is for a Core Fixed Income mandate. LACERS realizes that there are many definitions of "Core" and "Core-Plus" and we want to understand how each firm defines these terms and the extent to which non-benchmark securities are included in portfolios. As stated above, LACERS current guidelines allow for the limited use of non-investment grade and non-US dollar securities.

3) Would a Core Plus Fixed Income strategy be considered for the LACERS Core Fixed Income Mandate Search? Should managers submit their Core or Core Plus mandates for consideration?

This search is for a Core Fixed Income mandate. If a Core Plus strategy fits within LACERS guidelines as outlined above for the response to question #1, we will consider it for a Core mandate.

4) Will LACERS consider total product assets under management for the firm's Core and Core Plus Fixed Income strategies when determining whether or not the expected mandate would comprise more than 25% of proposed product assets as stated in #5, Section B?

LACERS will only consider the assets that match the product being proposed when determining the minimum requirement in #5, Section B. We will not accept combined assets from Core and Core Plus mandates.

5) Does LACERS have a preference for USD underlying exposure, or, alternatively, prefer a blend of US/GBP/Euro?

This search is for portfolios with USD exposure. LACERS' current investment guidelines allow for no more than 20%, in aggregate, to be invested in non-dollar denominated bonds and non-investment grade bonds.

6) Are the current investment guidelines negotiable? Are there significant barriers to getting any guidelines changed, assuming any changes are aligned with the objectives of the allocation within the broader portfolio and confirmed by the LACERS investment staff?

Each investment manager hired will have more specific investment guidelines than the broad guidelines outlined in LACERS Investment Policy and in the response to question #1. LACERS anticipates being able to agree on guidelines, assuming they are aligned with the objectives of LACERS core fixed income allocation.

- 7) In trying to determine whether we meet the minimum requirement of the mandate not comprising of more than 25% of the proposed product assets inclusive of LACERS assets, what is the expected mandate size? If our product assets would result in us being over 25%, based on a \$630 million portfolio, will this exclude us from the search? Will you consider a smaller mandate size for emerging managers? Also, in the LACERS emerging manager policy, it states that the firm will have no more than \$2 billion in total firm assets under management. Is this part of the minimum criteria for the Core search as well?**

As the RFP states, LACERS intent is to have mandate sizes of approximately \$630 million. However, LACERS has not finalized the exact mandate size of each portfolio nor has LACERS finalized the number of managers to be hired. LACERS will adhere to the requirement of no more than 25% of the proposed product assets inclusive of LACERS assets for all portfolios, including emerging manager mandates. LACERS will consider smaller mandate sizes for emerging managers. If firms have more than \$2 billion in total firm assets under management, those firms are not considered to be emerging under LACERS policy.

- 8) Is the minimum qualification #4, a minimum of \$50mm in the product category intended for emerging managers only?**

This minimum applies for all managers.

- 9) Will managers of emerging managers be considered for this search?**

Yes, LACERS will consider managers of emerging managers for this search. The proposer must be directly responsible for the management of the account including the selection and monitoring of all underlying investment managers. All personnel responsible for this function must be employees of the firm or a legal joint venture partner. It is not a requirement that the personnel from the underlying investment firms be employees of the fund-of-fund manager.

- 10) Will derivatives be allowed in the management of this portfolio? Do derivatives need to be cash-backed? Can the portfolio utilize CDX and swaps? Are relative value long/short currency trades that are implemented with forwards allowed? Are TBA mortgages allowed? Is accounting leverage allowed, as long as economic leverage does not exceed the risk/return and sector guidelines for the portfolio?**

LACERS will allow the use of derivatives in the management of Core Fixed Income portfolios. The manager will have the ability to use derivatives for the purpose of hedging duration, currency, credit risk and yield curve risk management. Derivatives may not be employed to create a levered exposure. Portfolios will not be considered leveraged as a result of a swap, options and futures positions provided the portfolio maintains cash and cash equivalents at least equal to the value of the obligations created by its net futures, options and swap positions in order to cover the obligations created by such options. Please refer to LACERS investment policy statement, Section V.F. page 172 for the derivatives policy.

11) The Investment Policy states that net short sales are prohibited transactions. Please confirm whether this statement applies to short positions in exchange-traded, U.S. Treasury futures.

The Investment Policy prohibits net short sales of any kind.

12) Is there a minimum or maximum duration range relative to the benchmark?

It is anticipated that portfolios should fall within a +/- 30% range vis-à-vis the Bloomberg Barclays Aggregate Bond Index.

13) Is LACERS willing to accept a performance-based fee schedule?

LACERS will consider a performance-based fee schedule. However, this is not LACERS' preference.

14) Does LACERS have a tracking error target relative to the benchmark, in addition to the alpha target?

No.

15) Is the 25 bps alpha target noted in the RFP meant to illustrate that the portfolio should be viewed as a Core investment grade strategy, or should the mandate be viewed as a Core Plus strategy given that non-dollar and non-investment grade bonds are permitted up to the 20% (as referenced in the Board Investment Policy guidelines for Core Fixed Income)?

The 25 bps alpha target is meant to illustrate that the portfolio should be viewed as a Core investment grade strategy. The Board Investment Policy guidelines for Core Fixed Income are intentionally broad and the guidelines for individual portfolios may not allow the same latitude.

16) Is LACERS open to using a Collective Fund (CIT/CTF) in lieu of a separate account?

No, LACERS prefers separately managed portfolios for the core fixed income allocation.

17) Does LACERS have any ESG considerations for this allocation?

There are no specific ESG considerations for this allocation. However, we are interested in knowing how your firm incorporates ESG considerations into your investment process.

18) Assuming it meets all of the minimum qualifications, would core bond strategies that incorporate ESG factors and Impact themes be considered alongside traditional core fixed income submissions? We would like to verify that our investment capability will not be excluded based on other criteria not outlined in the search documents.

Yes, LACERS will consider core bond strategies that incorporate ESG and Impact themes if the strategy meets the minimum qualifications.

19) Will LACERS consider an Active Fixed Income ETF for this mandate?

No.

20) Is it a deal breaker if our firm does not have a GIPS-compliant performance track record?

Yes, this is outlined as minimum requirement #6 in the RFP.

21) With regard to minimum qualification number 6, we have a GIPS compliant Core Fixed Income Composite that has been in existence for over 20 years; however, the assets represent the fixed income sleeve of our balanced strategy that we manage for retail and institutional clients using both mutual funds and separate accounts. Is this acceptable to satisfy this minimum qualification?

No, this does not satisfy minimum requirement #6. The Proposer must have a minimum of five years of verifiable GIPS-compliant performance history actively managing the proposed product for institutional clients.

22) Can you please specify what form proposers must submit to fulfill the following requirement: All Proposers are to provide completed City Required Forms (see below) and include as Exhibit 7: 5. Insurance Requirements (See Section B Minimum Qualification #14 and Appendix B

No form is required to be submitted as part of the RFP to fulfill the insurance requirement. Successful proposers will be required to meet the minimum insurance requirement as of the date of the signed contract.

23) Could you please clarify what you're looking for with respect to client references? Our understanding is that we should provide ten references in total:

- **Five as part of Exhibit 3 (five largest public pension plan clients firmwide), and;**
- **Five as part of Exhibit 6, pages 6 – 7 (five investors in current product).**

Can you please confirm whether we understand this correctly?

Yes, that is correct. However, the total number of references can be less if some references overlap the two categories.

24) Can we submit edits to the general conditions, standard provisions or to your form of IMA? Is LACERS amenable to negotiating certain terms presented in the Sample IMA? If so, how should respondents proceed with providing feedback on the Sample IMA?

Respondents are not required to provide feedback on the sample IMA, which was made available as an indication of the contract LACERS would provide to a selected firm. LACERS will negotiate the terms according to the sample contract once the mandate is awarded.

25) Could you clarify if material comments to the IMA are required at the time of submission of the bid or if there will be an opportunity for the Investment Manager to negotiate the IMA after the award?

Please refer to question #24 above.

26) We would like to request clarification on the fee aggregation section of Appendix D – Sample IMA. We noticed that there is an inconsistency between the LACERS Sample IMA and the other LA City plans' IMAs: The other plans have included a section that states a discount will be applied "provided that combined assets of the three City pension plans maintain a minimum of \$1.5 billion in assets under management with the Contractor". Will LACERS include this section in order to maintain consistency with the other LA City Pension plans' IMAs?

Please refer to question #24 above.

27) Regarding the "Fee Aggregation" provision in the Sample IMA:

"In the event that the Contractor is providing the same or similar investment management services to the Los Angeles Fire and Police Pension System and/or the Los Angeles Water and Power Employees' Retirement Plan (the "Other Funds"), LACERS will receive a discount of 15% from the annual fee, calculated on a quarterly basis. In the event that the Contractor is providing investment management services to the Los Angeles Fire and Police Pension System and/or the Los Angeles Water and Power Employees' Retirement Plan (the "Other Funds"), but the investment services are not the same or similar, LACERS will receive a discount of 10% from the annual fee, calculated on a quarterly basis."

Our firm does not negotiate fees or provide fee discounts; however, we are willing to provide "most favored nations" assurances that no other similar mandate will receive a lower fee schedule going forward. Would our firm's policy preclude us from participating in this search?

No, this would not preclude your firm from participating in this search.
Please refer to question #24 above.

28) Could you clarify if material comments to the IMA are required at the time of submission of the bid or if there will be an opportunity for the Investment Manager to negotiate the IMA after the award?

Please refer to question #24 above.

29) Regarding Exhibit 7 Question 5, "Insurance Requirements (See Section B Minimum Qualification #14 and Appendix B)" – within Section B "Minimum Qualifications" we do not see a Minimum Qualification #14. Are you referring to Section B Minimum Qualification #11 for insurance coverage requirements?

Yes, this is correct. Please refer to Section B Minimum Qualification #11 for insurance coverage requirements.

30) Regarding Appendix B – Standard Provisions for City Contracts, are these provisions open to negotiation and amendments?

The Standard Provisions for City Contracts are not open to negotiation and amendments.

31) We are a relatively small organization and make a concerted effort to protect the privacy of our employees. Given our concerns, we have typically completed third party diversity surveys to the level of detail that reflects our discretion. Should we not fully complete the diversity survey embedded in the RFP in its entirety, would that disqualify us from participation in this mandate?

No, while LACERS encourages completion of this diversity survey, it is for data gathering purposes only and failure to complete it will not disqualify your firm from participating in this mandate.

32) While our firm has an anti-harassment policy and a strong culture of mutual respect, we consider all personnel matters confidential. Can you please elaborate on the requirements for disclosures, specifically, whether the requirement incorporates litigation related to harassment or whether it is broader than that?

LACERS is requesting from each respondent the current status or disposition of any material pending or anticipated litigation against the respondent, its employees, or partners, involving allegations of sexual harassment or misconduct, such that an adverse outcome of any allegation would cause financial or reputational harm to the respondent.

33) We do not have an Affirmative Action policy in place. We do have an Equal Employee Opportunity policy in place. Would this disqualify us from this search?

The selected firm will be required to incorporate the Affirmative Action Program Provisions of Section 10.8.4 of the Los Angeles Administrative Code

into its contract with LACERS. The Affirmative Action Program Provisions are defined within Section 10.8.4 of the Los Angeles Administrative Code. For additional information, respondents should contact the Office of Contract Compliance at (213) 847-1922.

34) Section 31 (Non-Discrimination, Equal Employment Practices and Affirmative Action Policies) of Appendix A (General Conditions) and PSC-26 (Mandatory Provisions Pertaining to Non-Discrimination in Employment) of Appendix B (Standard Provisions for City Contracts) state that any respondent awarded a contract pursuant to the LACERS RFP must comply with the Non-Discrimination, Equal Employment Practices and Affirmative Action Policies set forth in Section 10.8 et seq. of the Los Angeles Administrative Code, as amended from time to time. In this area of law, jurisdictions use differing nomenclature and the term Affirmative Action and the requirements of an Affirmative Action Plan can vary by jurisdiction.

- a. Please confirm whether Section 31 of Appendix A, PSC-26 of Appendix B and Section 10.8 et seq. of the Los Angeles Administrative code that they incorporate by reference, require what is commonly referred to as an Affirmative Action plan containing a Utilization Analysis.**
 - b. If the answer to (a) above is Yes, please advise if the requirement for an Affirmative Action plan containing a Utilization Analysis is an unconditional requirement or whether there is any flexibility on that issue.**
 - c. Please advise if an Equal Opportunity in Employment Plan, that does not contain what is commonly referred to as an Affirmative Action plan containing a Utilization Analysis, would satisfy the requirements of Section 31 of Appendix A, PSC-26 of Appendix B.**
- a. The selected firm will be required to incorporate the Affirmative Action Program Provisions of Section 10.8.4 of the Los Angeles Administrative Code into its contract with LACERS. The Affirmative Action Program Provisions are defined within Section 10.8.4 of the Los Angeles Administrative Code. For additional information, respondents should contact the Office of Contract Compliance at (213) 847-1922.
 - b. The selected firm will be required to incorporate the Affirmative Action Program Provisions of Section 10.8.4 of the Los Angeles Administrative Code into its contract with LACERS. The Affirmative Action Program Provisions are defined within Section 10.8.4 of the Los Angeles Administrative Code. For additional information, respondents should contact the Office of Contract Compliance at (213) 847-1922.
 - c. The selected firm will be required to incorporate the Equal Employment Practices Provisions of Section 10.8.3 of the Los Angeles Administrative

Code into its contract with LACERS. The Equal Employment Practices Provisions are defined within Section 10.8.3 of the Los Angeles Administrative Code. For additional information, respondents should contact the Office of Contract Compliance at (213) 847-1922.