

RFP for Investment Management Services Contract Number TREAS15-200-INVESTMR Pre-bid Questions and Answers

*Please note that original questions are in **BLACK**, initial answers are in **RED**. Treasury personnel have attempted to provide the best information possible to assist investment managers in the preparation of their proposals.*

1. Regarding the RFP for Investment Management services for the State of Delaware Endowment fund (contract number TREAS15-200-INVESTMR), will an investment management firm be penalized for not being GIPS compliant? The firm I represent, *** follows a similar time-weighted calculation as mandated by (GIPS) for calculating portfolio-level performance returns for clients. Because our investment strategies have largely consisted of registered commingled investment vehicles, *** has not previously sought GIPS verification and does not claim compliance with GIPS. We are currently working with an independent verification services consulting firm to become GIPS compliant.

While the committee has a preference for GIPS compliance, a non-compliant track record will not disqualify a potential bidder. Please provide your expected timeline for GIPS compliance.

2. Our strategy has the potential to go short cash by 25% (although we won't hit this at all times); therefore we wanted to know if the portfolio parameters are hard constraints or there is some flexibility.

The RFP does not specifically exclude the use of leverage. We would certainly expect that leverage be a potential underlying component of any alternatives allocation. It is imperative, however, that a 5% cash allocation be available to meet the cash needs of the Delaware Department of Natural Resources and Environmental Control (DNREC).

3. On page 4 paragraph 5 the RFP requests a complete resume for people assigned to the management of the endowment. I have an investment committee and consultant that we use in managing our funds. The question is can we provide bios for each individual or do you require a complete resume?

Biographies will suffice.

4. Section number II: "Scope of Services"
Paragraph number: Second paragraph
Page number: 2

Text of passage being questioned: Treasury requests proposals for discretionary investment management services for the Endowment. Currently, the Endowment consists of approximately \$60 million of fixed income securities (predominantly U.S. Treasuries and investment grade bonds). Treasury desires to transition the Endowment to a multi-asset class portfolio subject to the following parameters:

Equities target of 60% within a range of 45% to 75%. International equities not to exceed 35% of equities allocation.

Fixed Income, alternative investments, and cash target of 40% within a range of 25% to 55%.

Cash in US dollars must be at least 5% of total assets at all times.

We cannot guarantee that we will always stay in these prescribed ranges. There have been times where we would have breached some of these parameters.

Are these ranges hard and fast or will there be some leniency for a product with a 26 year track record?

I've attached quarterly data for the past 20 years as a reference.

The Office of the State Treasurer and Cash Management Policy board will require an investment strategy that can adhere to the investment policy guidelines as written. Flexibility may be available on the gross vs. net exposures, as exemplified in the answer to question 2, above. It is understood that the allocations of a proposed strategy may have deviated from these guidelines historically. This is acceptable and the committee will give such a strategy full consideration, provided that it can adhere to the guidelines going forward.

5. We wish to submit the following questions as it relates to your RFP# TREAS15-200-INVESTMR:

i) Section II, Paragraph 1, Page 1: Regarding the scope of services, is the Endowment open to a collective investment vehicle, such as an institutionally priced mutual fund or funds that would provide the allocations you seek?

The committee will consider and accept the use of these types of vehicles to express the investment views of the multi-asset class management strategy presented.

ii) Section II, Paragraph 2, Page 2: In addition to the bullet points listed below paragraph 2, does the Endowment have a formal investment policy?

The investment strategy as presented in the RFP represents the basis for this mandate.

6. Our only question is as follows:

- Section II
- Paragraph 1
- Page 1
- The Endowment is to be invested in a manner consistent with guidelines approved by the Delaware Cash Management Policy Board.
- Has a detailed investment policy been created that provides guidelines other than the broad asset allocation in the subsequent paragraph?

The investment strategy as presented in the RFP represents the basis for this mandate

7. i) Is there a current investment policy statement for the “Endowment” and if so would it be possible to see a copy?

The investment strategy as presented in the RFP represents the basis for this mandate.

ii) Can you please elaborate on question #14? How does the header “Excess Returns” relate to the unique attributes or competitive advantage of a firm?

Consider “Excess Returns” as another form of value creation. What benefits has your strategy delivered, either through asset allocation, manager or security selection to produce a more desirable return stream for clients.

iii) Can you please define “security selection” in number 15? In the context of a balanced portfolio does security selection actually mean “Manager Selection”?

Security Selection can be used to cover both, depending on how respondents execute their strategy. Please feel free to break apart the individual components of your attribution as you see fit to exemplify your track record.

iv) Can you please clarify how to apply question 23 on pricing to a balanced portfolio of investment strategies? The question seems to be written to apply to a firm managing a portfolio of individual stocks or bonds vs a balanced portfolio of strategies.

This question is primarily written to address the potential use of illiquid vehicles for alternative investment strategies. Managers are encouraged to describe any pricing delays that the Endowment should expect with such vehicles, to the extent applicable, and any implications such delays might have for the managers' ability present timely and accurate reporting on their respective portfolios.

8. We note that in the RFP identified above, there is a requirement on Page 3, item 3 that records should be GIPS compliant. Among other things, GIPS compliance requires certain organizational structures within what is defined as the "investment firm". If a proposer has an audited record, but is not GIPS compliant for non-product reasons such as these, will they be disqualified from consideration or penalized in their assessment?

Such responses will not be disqualified. Please provide detailed support for the audit performed on your track record.

9. We have just a few questions that will help us understand the scope of services that are detailed in the RFP.

i) Is the use of both single securities and pooled vehicles (ETFs, mutual funds, commingled funds) acceptable for implementation?

Yes. It is expected that the chosen solution(s) may include all of the above.

ii) The proposed multi-asset class portfolio allows for alternative investments. Are there any restrictions on alternative investments, either the asset type (hedge funds, real estate, private equity, etc) or structure (limited partnership, mutual fund, etc)? Are there any specific liquidity constraints on the alternative investments that may be used?

There are no restrictions on the vehicles chosen. However, there are anticipated distributions of up to 5% of the value of the endowment annually on a rolling five year average. The exact timing of these flows has not yet been determined.

iii) Also in Section II of the RFP, the document states that investment managers will need to submit monthly reports to Treasury. Are there specific requirements for the monthly reports that need to be submitted?

Monthly reports should include

- a. **Statement of securities held.**
- b. **Summary of Current Asset Allocation**
- c. **Original cost of securities.**
- d. **Market and adjusted book values of securities.**
- e. **Accrued income for securities.**
- f. **Both book and market rates of return rounded to the nearest one thousandth of a percent.**

10. The following questions are in regards to the State of Delaware Request for Proposal (RFP) to provide Investment Management Services (Contract Number - TREAS15-200-INVESTMR):

i) We acknowledge that the treasury reserves the right to make a single or multiple source awards to manage the Endowment. We are an active, long only equity manager. Is it okay for us to propose an equity-only strategy for the equity portion of the portfolio?

This RFP is for a Multi-asset class manager than can deliver the diversified portfolio set forth in the RFP. In order to qualify for consideration, respondents need to meet the requirements for historical track records and asset under management in such strategies.

ii) Our firm has no debt and is solvent; however, as a privately-held company, we prefer to keep our financial records confidential. Is it acceptable to provide an unqualified opinion letter from our firm's auditor?

This is acceptable.

11. What is the source of capital for the current fixed income portion and going forward, the multi-balanced portfolio?

The current portfolio was established in 1990 under Volume 65, Chapter 212 of the Laws of Delaware.

12. Are bond proceeds used as source of capital for the aforementioned portfolio?

If the question relates to the issuance of municipal bonds, the answer is no.

13. Can the Delaware Cash Management Policy guidelines be posted or supplied to interested parties?

The new guidelines for the Land and Water Endowment are posted in Section II of the RFP document (TREAS15-200-INVESTMR). The legacy guidelines are available publicly here:

http://treasurer.delaware.gov/pdfs/final_investment_guidelines_regulation_20141201.pdf

14. Is the State of Delaware anticipating the 5% withdrawal to increase or decrease over the course of the portfolio?

There may be annual variability to this number, but it is not expected, by law, to exceed 5% annually on a rolling five year average.

15. Are there anticipated distributions and their according time horizon?

There are anticipated distributions of up to 5% of the value of the endowment annually on a rolling five year average. The exact timing of these flows has not yet been determined.

16. Will there be any need for sub-accounting?

The Sub-Accounting of the Endowment Account and Infrastructure Account will be facilitated by the custodian.

17. Is the State of Delaware remaining consistent with keeping custody with BNY Mellon?

The State has a contract with BNY Mellon to provide Custodian services and will review this contract, as it does with all investment service providers, on a regular basis.

18. Will there be consideration to combine custody and investment management services for economies of scale and cost-savings?

No. The State has achieved significant economies of scale with its existing custodian contract.

19. Per the multi-balanced allocation strategy, is the State of Delaware seeking investment managers to specifically manage selected asset classes or will one investment firm manage an entire portfolio?

This RFP is for a Multi-asset class manager than can deliver the diversified portfolio set forth in the RFP. In order to qualify for consideration, respondents need to meet the requirements for historical track records and asset under management in such strategies.

20. Is the below minimum qualification firm?

The applicant's proposed investment strategy portfolio for the Endowment must have continuous performance of at least 10 years with a minimum of \$1 billion in assets under management during the 10-year period.

Yes.

21. With regard to the below requirement; does an applicant need to have a minimum of \$1 billion in assets under management throughout the 10-year period or just presently? For example, can the applicant have 10-year track record and \$3 billion of AUM but five years ago had only \$500 million of assets under management?

MINIMUM PORTFOLIO REQUIREMENTS:

The applicant's proposed investment strategy portfolio for the Endowment must have continuous performance of at least 10 years with a minimum of \$1 billion in assets under management during the 10-year period; provided that any Delaware-based firm with a minimum of \$250 million in assets under management and a track record of at least 20 years of continuous performance may submit a proposal.

No. Must meet above MINIMUM PORTFOLIO REQUIREMENTS.