

## LACERS RFP Questions

- 1) Will you consider non-US/European/Asian Private Credit Managers or allocation strategies?**

LACERS' focus for this search is on the US, European and Asian geographies. In the future, we may consider other geographies.

- 2) Will you accept managers who currently have no LP offerings and no SMAs, but a track record that meets the requirements of the RFP?**

If your firm is managing \$1 billion (as of 9/30/2018) in private credit assets or if you meet the qualifications of an emerging manager, we will evaluate your proposal.

- 3) Please confirm that the mandate search is for middle market and/or direct lending managers, and not meant to invite submissions of larger syndicated senior loan strategies.**

This mandate is for corporate middle market direct lending.

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

As outlined in the RFP, the submitted track record must conform to GIPS. There is no flexibility around the 5-year track record requirement.

- 5) Will you consider a majority-owned subsidiary of a publicly traded company? Would the ownership for this qualification be looked at in terms of the parent company? Or the ultimate ownership of the parent company?**

We will view the parent company as an "entity" and not as a group of individual shareholders. If the entity (or parent company) has an ownership interest that is greater than 49%, then your firm will not qualify as an Emerging Manager.

- 6) Will a fund focused on broadly syndicated bank debt (where the majority of the loans are made to private companies) qualify under this mandate?**

LACERS seeks private credit portfolios comprised of senior secured debt and has a preference for a separately managed account. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

- 7) May an established manager utilize a track record from a prior firm to meet the 5-year requirement? Does the requirement for a 5-year track record relate to the specific strategy proposed, or can we show that the firm has a 5+ year track record of running private credit portfolios?**

LACERS will consider a track record from another firm assuming it attributable to the proposed investment team. Our preference is for the track record submitted to match the strategy proposed.

- 8) What is the anticipated timeline for making the allocation?**

LACERS anticipates finishing this search by mid-2019.

**9) Will diversified real estate debt strategies (which would include senior loans, securitized senior loans and mezzanine debt) be considered?**

LACERS is looking for private credit portfolios comprised of senior secured debt and has a preference for a separately managed account. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

**10) Will you consider an unlevered portfolio of US commercial and industrial first mortgages to qualify for your search?**

LACERS is looking for private credit portfolios comprised of senior secured debt and has a preference for a separately managed account. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

**11) Will you consider non-US managers with recently launched US versions of mandates as an Emerging Manager for the purposes of this search as long as the AUM of the US product did not exceed \$2 billion USD?**

No, LACERS will consider firm-wide assets under management in order to determine if your firm meets our Emerging Manager definition.

**12) Is the \$1 billion qualification threshold a hard requirement, or will firms with nearly \$1 billion in funds also be considered?**

No, the minimum qualification is for \$1 billion in private credit assets as of 9/30/2018. The only exception will be for firms who qualify as an Emerging Manager.

**13) Is the GIPS requirement mandatory?**

Yes. As outlined in the RFP, the submitted track record must conform to GIPS.

**14) We have launched our first credit fund this year with a new team. We also have \$15 billion in assets under management across private equity and energy infrastructure assets. Do we qualify under your Emerging Manager designation?**

No.

**15) Can you provide more guidance on "Senior Secured debt" focus of the mandate? Is this 1<sup>st</sup> lien only or are you open to 2<sup>nd</sup> liens and/or some amount of junior capital?**

Yes, LACERS is open to some exposure in 2<sup>nd</sup> liens and junior capital.

**16) Would you prefer an SMA or a Fund-of-One if not a commingled vehicle?**

LACERS' preference is for a separately managed account.

**17) Is the fund manager allowed to use leverage? If so, how much?**

LACERS will consider leveraged and unleveraged strategies.

**18) How does LACERS define senior secured? Does that mean only 1st lien loans? Does 1st lien include unitranche? Would LACERS like a basket for 2nd lien loans or opportunistic credit? How does LACERS define private credit?**

LACERS will consider portfolios/strategies that include a modest amount of unitranche, 2<sup>nd</sup> lien and subordinated debt. We define private credit for these mandates as corporate middle market lending.

**19) Does LACERS require a GP commitment? If so, how much?**

Not required.

**20) When calculating annualized returns, does LACERS prefer to use number of days in a year or trading days in a year? (i.e. 365 vs. 252)?**

Please assume 365 days in a year.

**21) Is LACERS asking for either an asset based fee proposal or a performance based fee proposal? Or both?**

LACERS will consider all proposed fee structures.

**22) Will you clarify the following two terms: "Base Fee" and "Alpha Participation Rate." Are they equivalent to management fee and carry?**

Yes, base fee and alpha participation are the equivalent to management fee and carry.

**23) What is the correct identification for the Contract/Bid/BAVN for the CEC forms? Is "LACERS Private Credit RFP" acceptable?**

Yes.

**24) For firms that lend to growth stage businesses, many of which do not have positive cash flow, are there other credit metrics you would prefer in the "Investment Level" tab of "Direct Lending Fund Deal-Level Data Request (Attachment 2)," since EBITDA is usually negative in those deals?**

EBITDA may be changed to revenue in the data request. Please make sure that you highlight it is revenue and not EBITDA.

- 25) One of the required documents is a “draft of proposed contract for the portfolio” – would a current Private Placement Memorandum/Subscription Agreement fulfill this requirement?**

If you are submitting a collective fund, then yes.

- 26) For the CEC form 50 v02.14 – what is the Bid/Contract/BVB Number for the search?**

Please use LACERS Private Credit RFP for the contract.

- 27) Please confirm whether the \$1 billion in private credit can include liquid/syndicated bank loans.**

The \$1 billion in private credit should not be satisfied with liquid/syndicated bank loans.

- 28) Please confirm whether the benchmark, Credit Suisse Leveraged Loan Index, is indicative of the type of investments for this mandate. Please provide a definition of private credit for purposes of this RFP.**

The benchmark is not indicative of the type of investments we are looking for. We are using this benchmark as a proxy for the private corporate middle market lending space. We are defining private credit for this mandate as corporate middle market loans.

- 29) Is the Table of Contents meant to outline the relevant required documents listed in Section 4, or is this section meant to allow managers an opportunity to articulate their firm history, investment philosophy, strategy, investment approach/process, risk management, etc. Can you please confirm?**

Please refer to pages 3 and 4 from the RFP for proposal submission requirements.

- 30) For applicants without a current commingled fund in the market, should they complete p2’s “Proposed Portfolio / Current Fund Overview” based on 1) statistics pertaining to their most recent commingled fund, or 2) the proposed fund terms for LACERS? What investments should they include in section P2? Should they include investments from their current commingled fund, all investments in this strategy since inception, or leave this section blank?**

You may provide data on your most recent fund if you anticipate the LACERS portfolio to be similar.

- 31) Can you please confirm the definition of the following columns included in the Questionnaire. Aggregate Value – does this mean Total Value represented by Realized Proceeds and Unrealized Value (Realized Proceeds include interest payments received, repayment of principal, cash prepayment penalties and OID. Unrealized Value is the estimated ASC 820 value. Equity Value – does this mean Unrealized Value (estimated NAV of**

**the position). Fund Equity Investment – does this mean Total Invested Cost?**

The definition of Aggregate Value, Equity Value and Fund Equity Investment is correct.

- 32) Can you confirm whether you'd like us to complete pages 11-12 and 25-26 of the questionnaire based on our current commingled fund's leverage strategy and incentive fee structure? If we would like to propose a Fund of One vehicle for LACERS, is this table instead meant to reflect our proposed terms for leverage and sponsor investment/promote structure for the Fund of One, respectively?**

LACERS' preference is to have a separately managed account, but we may entertain a commingled fund. We provided this format in the event a firm wishes to propose a commingled fund.

- 33) Does LACERS have a target company size (based on EBITDA) for the SMA? Please advise if 2nd lien (which fits the senior secured definition, but is second ranking behind the 1st lien) can be included as part of the allocation in the SMA. From a geographic perspective, is it acceptable to use a blended approach (i.e. include both US and Europe)? If using a blended approach, will a comparable benchmark be used (i.e. a blend of the US and Western European Credit Suisse Leveraged Loan Indices?)**

LACERS has targeted the middle market. We will consider portfolios that have a modest amount in 2<sup>nd</sup> lien loans. We will consider portfolios that have a blended geographic approach and therefore, would evaluate the merits of a blended benchmark.

- 34) Will LACERS accept both primary and secondary transactions into the SMA?**

LACERS will consider both primary and secondary transactions into the SMA.

- 35) Is LACERS seeking an open-ended or closed-ended structure?**

LACERS has a preference for separately managed portfolio.

- 36) Would LACERS require the manager to provide currency hedging for non-USD denominated investments?**

Not required.

- 37) Has LACERS considered the use of a subscription line in the SMA, and would this be acceptable?**

Yes, LACERS will consider a subscription line.

- 38) Does LACERS want an unlevered portfolio, or would portfolio-level leverage be acceptable?**

LACERS will consider leveraged and unleveraged strategies.

- 39) Will the LACERS private credit mandate include strategies other than first lien/direct lending? For instance, will it include opportunistic or more complex strategies with the ability to invest in rapidly growing companies, specialty finance, distressed debt, unitranche/mezzanine debt or preferred equity types?**

Yes, LACERS is open to modest exposure in 2<sup>nd</sup> liens and junior capital.

- 40) Would you consider an allocation to infrastructure debt as part of your private credit strategy? Would the same target return/benchmark apply to an infrastructure debt strategy? Will you consider strategies that invested in debt that was other than senior secured?**

LACERS is looking for private credit portfolios comprised of corporate middle market senior secured debt and has a preference for a separately managed account. We are open to modest exposure to 2<sup>nd</sup> liens and junior capital. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

- 41) Are you eligible to invest into Irish Collective Asset-management Vehicles (ICAVs)?**

LACERS' preference is for a separately managed account.

- 42) Will you consider real estate strategies that invest in first-lien senior mortgages?**

LACERS is looking for private credit portfolios comprised of corporate middle market senior secured debt and has a preference for a separately managed account. We are open to modest exposure to 2<sup>nd</sup> liens and junior capital. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

- 43) Given this search is for a separate account or a commingled fund vehicle, would LACERS require a form of an investment management agreement separate from the fund documentation for a commingled vehicle? If we are only proposing a commingled vehicle, do we need to provide comments to the sample agreement provided in the attachments?**

No.

- 44) Could you further expand on "senior secured debt mandate" would you consider any of the following;**
- a. Broadly Syndicated 1st / Senior Secured Loans**
  - b. Syndicated Middle Market 1st Lien Secured Loans**
  - c. Directly originated middle market loans**
  - d. Regulatory Capital Relief Transactions. Structured notes backed by a reference pool of senior secured and unsecured private bank loans**

LACERS is looking for private credit portfolios comprised of corporate middle market senior secured debt and has a preference for a separately managed account. We are

open to modest exposure to 2<sup>nd</sup> liens and junior capital. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

- 45) If we do not attest to the appendices and offer a response such as “we will assess these requirements and address at a later stage”, would this disqualify us for the LACERS RFP?**

To be considered for this mandate, firms must submit the attachments to our consultant. Responses that are incomplete may not be considered.

- 46) Please describe the types of senior secured debt permissible in the search. For example, large corporate loans, middle market loans, direct lending opportunities? Would a solution rotating among different private credit markets over time be permitted? Is there a minimum company size that would be applicable for the Private Credit Mandate Search?**

LACERS is looking for private credit portfolios comprised of corporate middle market senior secured debt and has a preference for a separately managed account. We are open to modest exposure to 2<sup>nd</sup> liens and junior capital. The proposed strategy is expected to outperform the Credit Suisse Leveraged Loan index by 200 basis points over a full market cycle.

- 47) With regards to minimum qualification (#9) requiring acceptance of 200 basis point outperformance of the Credit Suisse Leveraged Loan Index, would leverage be allowed to meet the benchmark return?**

LACERS will consider leveraged and unleveraged strategies.

- 48) Does LACERS have a preference for a fund or separate account?**

LACERS prefers a separate account for this mandate.

- 49) Does the indemnification obligation (Standard Provisions, Appendix B, Item PSC-18, Indemnification) relate only to physical injury (and not to non-physical injuries)?**

We are not prepared to comment on this at this time. If you believe it is material to your response please outline any concerns as part of your proposal.

- 50) Are any of the Forms provided as Appendix A and Appendix C available in Word (rather than .pdf) format?**

No.

- 51) Is a levered or an unlevered SMA program preferred? If LACERS would like a levered SMA program, please provide guidance regarding the target level of leverage desired.**

LACERS' preference is for a SMA and will consider leveraged and unleveraged strategies.