

2019 Emerging Market Debt Mandate Search
(Questions are in bolded font, answers in non-bolded font)

1. **"1) The Proposer must have a minimum of \$50 million under management in the proposed product as of March 31, 2019.**

We currently have the follow Emerging Market Debt strategies Total Return (\$4.3B AUM), Local Currency (\$1.9B AUM), and Hard Currency (\$46M). Local and Hard Currency are our benchmarked products which would be used to create the blended strategy for this proposal. Together, we have approximately \$2.36B in AUM. Would this meet the proposed requirement above? We currently do not have \$50M in AUM in a blended Emerging Market Debt product."

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)The 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.

Based on the total AUM of our Local and Hard Currency benchmarked products this would not be an issue.

See answer to 1 (1)

3)Minimum of five years of verifiable GIPS-compliant performance history actively managing the proposed product for institutional clients.

The team joined in 2016 from another firm. We would qualify for the requirement above if the team's track record is included in the five years of verifiable GIPS-compliant performance history. Can you please let me know if the inclusion of the team's track record from another firm would be allowed?

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)The Proposer must be willing to accept the blended benchmark of JPM EMBI Global Diversified and JPM GBI-EM Global Diversified

For our Hard Currency product we use a non-diversified version of JPM EMBI Global. Would this be an issue?"

We are not contemplating a change to the benchmark.

2. **"6. The Proposer must have a minimum of five years of verifiable GIPS-compliant performance history actively managing the proposed product for institutional clients. Emerging Managers (as defined by the LACERS Emerging Investment Manager Policy) with a GIPS-compliant track record of less than five years for the proposed strategy may submit this track record and a supplemental track record established at a prior firm when performance can clearly be attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered."**

We have been managing an Emerging Markets Debt Local Currency strategy since 2006. Our Emerging Markets Debt Blended Currency strategy (a natural extension of our flagship Local Currency strategy) has a GIPS composite performance track record that began in October of 2016. This strategy is roughly comprised of a 50% allocation to our EMD Local Currency strategy and a 50% allocation to our EMD Hard Currency strategy. Given the longstanding track record of the Emerging Markets Debt Local Currency strategy, would we be permitted to propose our Emerging Markets Blended Currency strategy for this search?

See answer to 1(1) above.

5. The 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.

As of March 31st we managed over \$1.3 billion in assets across our Emerging Markets Debt strategies. Specifically, our Emerging Markets Debt Blended Currency assets under management accounted for just over \$50 million of that total. Given our overall AUM in Emerging Markets Debt, would we be permitted to participate in this search?"

See answer to 1(1) above.

3. **Would you consider regional managers for the RFP?**

Yes, as long as the proposed strategies are benchmarked to the blended benchmark of JPM EMBI Global Diversified and JPM GBI-EM Global Diversified.

Our strategy has 19 years and we are in the process of getting GIPS-compliant (within the next year), would that work or is there an alternative?"

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. **We would like to ask for clarification pertaining to B. Minimum Qualifications: Requirement 8:**

8. At least 60% of rolling four quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five years (12 of 20 quarters) ended March 31, 2019.

The track record for our blended strategy that would be most appropriate for this mandate has slightly less than the required 20 quarters. That said, we have accomplished the required 12 quarters of outperformance within that shorter timeframe. We would like to know if this strategy is acceptable under the terms of Qualification number 8 (detail provided below).

This is not acceptable.

5. **We are a manager that manages \$10bn in local currency emerging market debt. We notice the requirements for the RFP say \$50m and a five year track record in the proposed product. Does proposed product imply this has to be in a blended hard/local currency mandate or can our local currency track record be relevant?**

See answer to 1(1)

6. **Our Emerging Markets Debt Blend strategy has a five year verifiable GIPS-compliant performance history (minimum requirement #6), however, our track record (12/31/2013) is not long enough to qualify for minimum qualification #8 by using the rolling four quarter information ratios for the last five years (ending March 31, 2019). Would you consider a 36 month rolling monthly information ratio to qualify for this opportunity, given our qualification of all the other minimum requirements?**

No

As it relates to the Diversity and Inclusion information requested on page 10 of the NEPC Research Manager Questionnaire, would it be acceptable to provide the requested excel document in a separate email given the confidentiality and sensitivity of our employees' diversity information?

Yes

7.

- 1) We do have the track record in eVestment, however, we only have a ~4yr track record (as of August). Would that be an issue if you require 5 years of IR data? We have individual track records for both our external and local EMD strategies dating back to 1993 and 2007, and would like to participate in this blended search. Given the team's long track record of investing between both hard and local currency bonds, can you please confirm if our strategy would be considered despite not having a 5-year track record?**

Your strategy will not be considered.

- 2) AUM: the composite has ~\$500mn in assets, however, we manage ~\$1.1bn in this style if we include some of the more customized mandates we manage. Would that preclude us given this mandate would be almost 50% of our assets in this style? Overall we manage over \$6bn in dedicated EMD assets (across EM external and local currency sovereign and corporate debt mandates), closer to \$9bn if we include assets in other global products.**

Citing page 2 from the RFP, The 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.

8.

- 1) Will corporate (non quasi-sovereign) debt be permitted in the mandate? Will there be a maximum limit? Are off-benchmark (CEMBI BD) issuers permitted? Are there any non-USD restrictions to corporate debt exposure, if permitted?**

Corporates may be permitted subject to risk constraints identified and agreed to by LACERS.

- 2) In reference to #6, we are undergoing the final phase of GIPS compliance and will have a 5+ year verifiable composite in EMD (blended debt) within a month, but may not be in place by the final due date of RFP submission. Is it acceptable for us to submit?**

There is no flexibility around the GIPS compliance and 5-year track record requirement. If you currently have GIPS compliance in place please forward the verification.

9.

- Will you grant an exception for a strategy with 4 years of GIPS performance for an existing manager of LACERS?**

No

- Will you accept a 5, 7, or 10 year carve out strategy for an existing manager of LACERS?**

No

10. **In Appendix B, Standard Provisions for City Contracts, can you please confirm that the indemnification in PSC-18 is only for losses that arise from or death or injury to any person, including CONTRACTOR'S employees and agents, or damage or destruction of any tangible property?**

LACERS DOES NOT INTERPRET THIS PROVISION TO LIMIT INDEMNIFICATION AS SUGGESTED BY THIS QUESTION.

11. **It is our understanding that all information throughout this RFP should be as of March 31, 2019. Can you please confirm if this as of date applies to team-related information (personnel updates) or if we should provide this information as of the date of our submission?**

Yes. If there are personnel updates that impact the strategy being proposed that occurred after March 31, 2019 we believe it is reasonable for that to be disclosed.

12. **1) Our Emerging Markets team has 10+ year track records in both Local Currency and Hard Currency Emerging Markets Debt strategies and in total manages over \$3.5 B in Emerging Markets Debt assets. We do not have a Blend GIPS composite, but could easily combine the two strategies as a blend either through a static or tactical allocation. Given our long term experience and GIPS track records in the underlying strategies, would we qualify for this opportunity?**

No

- 2) For the performance requirement, could we show the blended performance of the two GIPS composites?**

No

- 3) Is the preferred benchmark 50% JPM EMBI Global Diversified and 50%JPM GBI -EM Global Diversified or does the manager have discretion on the allocation?**

The manager should have discretion on allocation.

- 4) Are there any guidelines as to how far a manager can deviate from the blended benchmark?**

LACERS will evaluate a proposed strategy based on its merits and risk characteristics versus the blended benchmark.

- 5) Appendix A – General Conditions #30 (Standard Provisions for City Contracts) notes that if awarded the contract, the investment manager will be required to adhere to the “Standard Provisions for City Contracts.” However, the website (<http://www.lacers.org/aboutlacers/request-for-proposals/index.html>) notes that these provisions are applicable only for non-investment contracts. Since this RFP is in relation to an investment contract, please**

confirm that these provisions will not be applicable with respect to this mandate.

THE FOLLOWING STANDARD PROVISIONS DO NOT APPLY TO THIS RFP: 24, 26, 29, 31-34, 36, 40-43. CERTAIN ASPECTS OF # 26 WILL APPLY TO THIS CONTRACT, ACCORDING TO THE EXPRESS LANGUAGE OF LOS ANGELES ADMINISTRATIVE CODE, SEC. 10.8 ET SEQ.

13.

- 1. Item 5 notes, "The 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". Strategy assets X meet this qualification but we would be proposing the X commingled fund as the solution. Given LACERS assets would comprise more than 25% of the CTF's assets, can we submit this as a solution? Can we propose the creation of a custom SMA instead?**

Per page 1 of the RFP, LACERS seeks a separately managed account and our definition of asset under management in the strategy can be found in answer 1(1).

- 2. Item 7 of the minimum qualifications requires a "blended benchmark of JPM EMBI Global Diversified and JPM GBI-EM Global Diversified as the mandate benchmark". Can we submit the x strategy for the RFP given this is not our official benchmark? If so, the x CTF fund was inception in the beginning of 2019, so would it be possible to use the x strategy's GIPS performance as reference? Please note we believe the x strategy has satisfied the performance qualifications noted in item 7 and 8, even though this is not our official benchmark.**

LACERS seeks an separately managed account. CTF is not a strategy it is a type of investment structure. If your strategy meets the minimum qualifications, we will evaluate it.

- 3. We launched an ESG version x 2018. The x ESG fund is benchmarked to the blended JPM ESG EMD benchmark. Would NEPC consider this solution given a minimum track record? If so, would a custom SMA solution be acceptable?**

NEPC and LACERS will evaluate only those strategies that meet the minimum qualifications. As outlined, it does not.

14.

"While we do have an Emerging Markets Debt Blended Product that we would propose using for this mandate, this product on a stand-alone basis does not meet minimum qualifications #4, #5, #6, #8, #9, #10. The same portfolio team is managing the Blended Product do manage both a hard currency EMD product and a local currency EMD, that each individually meet all the minimum qualifications. Would we be able to rely on our underlying hard currency EMD and local currency EMD products to meet the minimum qualifications for the Blended Product we would be proposing?"

No

15. **Can you please clarify the blended benchmark requirement for this RFP. For example, do you require 50/50 or are you open to a different split depending on the manager's style? And in the same vein, in regards to minimum qualification #8, is the information ratio to be calculated based on a 50/50 benchmark or a different split that we would deem "mandate appropriate" based on the strategy's historical exposure?**

The blended benchmark is the benchmark identified for as the benchmark for managers to agree to. Manager styles may differ. The information ratio will be calculated based on the blended benchmark in identified in the RFP.

16. **Can you confirm that LACERS' responses to the following questions are still the same?
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.

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.

17. **Does LACERS anticipate any issues with proposed response to #5 under Minimum Qualifications? Please see below.**

#5 under Minimum Qualifications:

The 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.

x's proposed response:

The proposed products assets would not comprise more than 25% of x's fixed income's total assets under management. LACERS' expected mandate size is larger than total assets managed in the x's Emerging Markets 50% Hard/50% Local Blend strategy as of March 31, 2019.

Per the RFP minimum qualification #5 – as outlined, this does not qualify.

In Exhibit 7, the instructions state that City Required Forms should be completed by Proposers; other documents (Appendix A, B, and D) are

described as for “review” by the Proposers. Would it be possible for Proposers to submit edits or modifications to any of the terms and conditions in Appendix A, B and/or D with its response?

No

Will the Proposer need to complete the business tax registration at time of the submission of the response to the RFP, or only upon award or signing of the contract?

BUSINESS TAX REGISTRATION IS A REQUIREMENT TO CONTRACT WITH LACERS BUT IS NOT A REQUIREMENT FOR RESPONDING TO THE RFP. CERTAIN CONTRACTORS MAY BE EXEMPT FROM THIS REQUIREMENT IF THEY MEET THE STATUTORY DEFINITION OF “FINANCIAL CORPORATION” PROVIDED IN 18 CAL. CODE OF REGS. SEC. 23182.

18. **1. The blended benchmark referenced is JPM EMBI Global Diversified and JPM GBI-EM Global Diversified. Will the investment guidelines permit use of corporate bonds (perhaps to a defined %)?**

LACERS will evaluate the strategies as proposed.

2. In the “General Firm and Product Information” section does the question regarding “Investment Strategy Assets Under Management” refer to the sum of Emerging Market Debt strategies (i.e. Local Currency, Hard Currency, Corporate Debt, Blended Debt, etc.)? Or is the question specific only to Emerging Market Blended Debt?

See answer to 1(1)

19. **Proposer, x , is a registered investment advisor under the Investment Advisors Act of 1940. However, via a Participating Affiliate arrangement with its parent entity, x (other country), all advisory services and portfolio management takes place at x (other country). As explained in the Form ADV, Part II for x: x USA is a wholly-owned subsidiary of x (other country) which is authorized and regulated in other country by (x other country Services Authority). X other country was formed in 2007 and is headquartered in x other other country. All of the business revenues and net profits of x USA are consolidated within x other country. X other country is exempt from SEC registration as a “participating affiliate” of x USA as that term is used in relief granted by the staff of the SEC allowing U.S. registered investment advisers to use investment advisory resources of non-U.S. investment adviser affiliates subject to the regulatory supervision of the U.S. registered investment adviser. Certain employees of x other country are subject to x USA’s supervision and control and are treated as “persons associated with” x USA.**

x USA wants to confirm that the Participating Affiliate relationship is, in LACERS’ view, at least equivalent to a legal joint venture such that LACERS will deem that the Proposer, or its parent, are directly responsible for the management of the account, and all personnel

responsible for the account must be employees of the firm (or its parent).

THE LEGAL ANALYSIS REQUIRED TO ANSWER THIS QUESTION IS BEYOND THE SCOPE OF THE Q&A PROCESS CONTEMPLATED BY THIS RFP. ANY DETERMINATION REGARDING HOW LACERS WILL CONSTRUE THE CORPORATE ORGANIZATION OF A RESPONDER OR THE LEGAL IMPLICATIONS OF THAT DETERMINATION WILL BE MADE PRIOR TO THE AWARD OF ANY CONTRACT(S), AT THE TIME WHEN FINAL CANDIDATES ARE IDENTIFIED.