

**Investment Consulting Services
RFP #I-2021-4
Response to Inquiries**

1. Can you share the totality of the fees paid to your current investment consultant(s)?

Response: IPERS' contract with Wilshire provides for a payment of \$377,200 for the annual period that ends September 30, 2021. IPERS has also agreed to pay Wilshire \$50,000 for specialty consulting services for the opportunistic private credit search that is currently in progress.

2. Would you consider consolidating the number of passive providers you use if it would result in a cost savings to the plan?

Response: Yes, provided such a plan adequately considered transition costs and other considerations.

3. Attachment #1 Required Contract Terms: Does the state have a statutory bar against agreeing to a limitation of liability (LoL) and/or indemnification with service providers? Based upon IPERS indemnity, insurance, payment terms, etc., will IPERS accept any exceptions to the terms and conditions?

Response: IPERS will not accept an agreement containing provisions that require IPERS to indemnify or defend a service provider (or any affiliate, director, employee, contractor, subcontractor, or agent of a service provider, etc.) unless such indemnification is under Iowa Code Chapter 669 and breach of contract law in the state of Iowa. IPERS will not agree to provisions that would either limit the liability of the service provider for specified types of damages or place any sort of cap or total limit on the amount of damages for which a service provider could be held liable under the contract. This is not intended to preclude a service provider from relying on standard force majeure clauses. IPERS will not accept exceptions to the terms and conditions as stated in Attachment #1, required contract terms.

4. General - Financial Status: What is the funded status of the entity? What is the credit rating of the entity?

Response: IPERS' last actuarial valuation for June 30, 2020 indicated a funded ratio of 83.69%. IPERS does not have a credit rating.

5. General - Technical Status: What are the public funds' legal/tax structures?

Response: IPERS is an independent agency within the executive branch of Iowa state government subject to Iowa Code chapter 97B.

6. General: Will you please provide Wilshire's current fees for this service?

Response: See response to Q.1.

7. **General:** Please discuss any particular plan governance education or topics that we should address in our response and/or statement of work.

Response: IPERS expects the consultant to provide an annual educational workshop at IPERS for Board members and staff. The agenda for these educational sessions will be developed in consultation with Board and staff, but the consultant will also be expected to provide several potential topics related to investment, governance, etc.

8. **General:** Will we be required to attend all Board/Committee meetings be onsite or are there opportunities to attend via video or conference call?

Response: IPERS expects the Primary Consultant to attend each Board meeting in person; however, exceptions may be permitted by IPERS for special circumstances.

9. **General:** May you please provide a copy of the most recent investment performance report?

Response: Here is a [link](#) to the March 26, 2021, IPERS Investment Board meeting materials, where you will find the Calendar Year 2020 Investment Performance review beginning on page 6 of the PDF.

10. **General:** May you please provide detail on past asset/liability studies or illustrations.

Response: IPERS has not undertaken a formal A/L study in many years. Instead, IPERS has utilized Wilshire's proprietary Actuarial Liability Valuation (ALV) modeling in their annual asset allocation reviews to inform the Board of the potential impact that various asset allocation policies could have on future UAL or funded ratio levels.

11. **What is the most important investment issue Iowa PERS is currently facing?**

Response: The need for investment return in a low-return environment while protecting downside.

12. **Can you provide some background on why the alternative assets consulting scope (i.e. Absolute Return and Private Markets) is classified as "Special Projects" and "as needed" rather than as part of the general retainer?**

Response: Private market and absolute return searches tend to be intermittent and more complex than those public market searches included in the general consulting scope, and therefore IPERS prefers to have them priced separately. Note that most of the services described in section 3.1 of the RFP for General Consulting Services pertain to all asset classes, while the scope in section 3.2 for Special Projects pertain only to searches in private markets and absolute return.

13. **Can you provide the most recent quarterly investment performance analysis report?**

Response: See response to Q.9. We are unable to link to the quarterly report in this document, but it can be made available upon request.

14. Can you provide the most recent Asset Allocation Study?

Response: Here is a [link](#) to the September 17, 2020, IPERS Investment Board meeting materials, where you will find the Annual Asset Allocation Review presentation beginning on page 10 of the PDF. Here is a [link](#) to the press release that explained the Board's decision.

15. Has the System conducted a formal Liquidity Analysis? If so, can you provide the most recent study?

Response: Here is a [link](#) to the September 16, 2020, IPERS Investment Board meeting materials, where beginning on page 30 of the PDF you will find a discussion concerning a liquidity analysis performed on the IPERS portfolio.

16. Is the Board expecting to have an Asset Liability study done in 2021? When was the last study conducted?

Response: IPERS is interested in evaluating how it can determine the appropriate level of investment risk the System should take. Whether that requires an A/L study or some other type of analysis is open to discussion, but it is conceivable that the Board may want to have this work performed at some time during the term of the consulting contract. It is doubtful that it would occur in 2021 because of timing issues. IPERS' last formal A/L study was performed by IPERS' actuary in 2007. Since that time, IPERS has utilized Wilshire's proprietary Actuarial Liability Valuation (ALV) modeling (which uses actuarial data provided by IPERS' actuary) in their annual asset allocation reviews to inform the Board of the potential impact that various asset allocation policies could have on future UAL or funded ratio levels.

17. In light of current events surrounding COVID-19, would the Board be open to the hired consultant attending meetings via a virtual platform?

Response: IPERS is willing to consider virtual attendance so long as the pandemic and travel issues persist. However, once "normalcy" returns, the Primary Consultant is expected to attend every Board meeting in person unless special circumstances exist.

18. Under section 3.2 Special Projects, may "Special Projects" be priced on a case-by-case basis?

Response: IPERS requests a single price that would apply for a typical search in each category. However, firms may qualify their responses with descriptions of what they would consider to not be a typical search and request negotiated pricing on projects that would fall outside their definition of a typical search.

19. Are there other “Special Projects” requested besides what’s listed under 3.2.1 (private markets) and 3.2.2 (absolute return strategies)?

Response: Question 4.2.8.3 of the RFP is designed for this situation. If your firm offers services or projects that IPERS may want to utilize but which are not covered in sections 3.1 or 3.2 of the RFP, then you should include them in your response to question 4.2.8.3 of the RFP.

20. Does IPERS require a public RFP process for each individual search?

Response: In general, yes, although there are some limited exceptions under Iowa procurement laws and rules that may apply at times.

21. How many searches are anticipated?

Response: IPERS will lead all manager searches and will expect the consulting firm to assist staff in performing the search process. In the next 12-18 months, we estimate 3 private market searches, at least 1 absolute return search and possibly 2 public market searches.

22. Is there an existing pacing plan in place?

Response: A general pacing plan exists for private equity investment, but otherwise pacing for other private market asset classes are reviewed annually or not deemed necessary.

23. What is the typical commitment size per manager?

Response: IPERS generally looks to commit \$50 to \$250 million to private credit and private real asset mandates. Pathway Capital Management solely manages IPERS’ private equity portfolio in a “fund of one” structure, and IPERS makes an annual commitment amount available to Pathway every year. The private equity commitment amount is usually between \$700 million and \$1 billion each calendar year.

24. How many commitments are anticipated annually?

Response: Difficult to forecast, especially since we are currently ramping up significantly larger allocations to private credit.

25. Please describe the internal administrative staffing structure that supports the Fund.

Response: The Chief Executive Officer oversees all aspects of the IPERS system. The Chief Investment Officer implements the investment policies and decisions of the Investment Board and manages the investment program. The CIO oversees an investments staff of six investment professionals, each responsible for overseeing multiple asset classes or performing certain investment functions (such as risk management, compliance, etc.)

26. Can you describe the scope of the Investment Board’s relationship with staff regarding policy formation and decision-making responsibilities? Which responsibilities are delegated to Staff?

Response: Please refer to IPERS’ [Investment Policy](#) on our website that details duties of Board and staff. The Board must approve all policy changes and staff and consultant usually play a large role in proposing policy changes. By law, the Board is responsible for the hiring of external investment managers, and staff, with the assistance of the consultant, performs manager searches and brings hiring recommendations to the Board.

27. How often does the Investment Board engage in education sessions led by the consultant? Are the sessions held during normal Investment Board meetings, conducted separately (e.g. – annual retreat), or both?

Response: IPERS traditionally has dedicated an annual half-day meeting for Board members and staff to receive continuing education on-site at IPERS. These meetings traditionally occur in September the day before the regular Board meeting. IPERS expects the consultant to take the lead in planning for this meeting, including development of the agenda and arranging for speakers.

28. For due diligence of managers and administrative service providers, is it customary to conduct onsite visits? What types of events trigger these visits? Do staff and consultant both attend onsite meetings?

Response: IPERS customarily conducts on-site visits as part of the hiring process and thereafter at staff’s discretion. IPERS usually requests the consultant to attend these meetings.

29. The IPERS website shows that Investment Board meeting days vary throughout the year. How and when are meeting dates established? Is there any flexibility in setting meeting dates?

Response: The Board establishes its meeting schedule for the upcoming fiscal year at its September Board meeting every year. However, the schedule can be revised at the Board’s discretion.

30. Does IPERS plan to conduct virtual, in-person, or hybrid meetings? If in-person, will there be required protocols or requirements to attend (e.g. – proof of COVID vaccination and/or negative COVID test within a certain number of days of the meeting)?

Response: Our hope is to get back to in-person meetings beginning in June, but that will depend upon circumstances closer to that meeting date. A proof of COVID vaccination will not be required, but IPERS has not yet determined what other protocols, if any, will apply once in-person meetings are resumed.

- 31. When were the custodial service and fee arrangements last updated? Was there a competitive analysis conducted at that time, or were any revisions the result of a review with the incumbent only?**

Response: The State Treasurer selects and hires the custodian bank, usually with involvement or input from IPERS staff. The State Treasurer issues an RFP for these services generally every 5 years. The consultant will not be involved in any custodian bank search.

- 32. How is staff organized relative to portfolio management? Is there a formal career development path for investment staff?**

Response: In general, IPERS has investment officers, senior investment officers, and a chief investment officer, who all have traditionally overseen only external managers. IPERS is looking to change this culture and create development career paths for investment employees by developing internal management capabilities, creating more investment staff positions and exploring incentive compensation.

- 33. What major projects have been completed with the investment program in the last 12 months?**

Response: IPERS is in the process of completing several major investment projects. Staff is currently in the process of implementing an internally managed program designed to harvest alternative risk premia at low cost. Staff is also completing the hiring of multiple managers across multiple types of private credit strategies. Staff has also studied internal equity management, and is working on developing a systematic tactical asset allocation model.

- 34. If you use software packages to evaluate for portfolio implementation and manager research, what features are viewed as most valuable? Least valuable?**

Response: IPERS staff values manager performance and research data that is accurate and up-to-date.

- 35. Where do liquid alts reside in the strategic asset allocation?**

Response: Liquid absolute return strategies are solely for alpha generation, and are implemented using futures overlays onto IPERS' cash allocation – they are not a strategic asset class.

- 36. Are any strategies currently managed in-house? If so, how and by whom are they evaluated?**

Response: IPERS is in the process of implementing an internal alternative risk premia investment program. Staff will use external analytical software and an administrator to assist in managing the program. The consultant and staff will evaluate the program as it develops and provide reports and updates to the Board on a regular basis.

37. What goal(s) are the target of the Parametric overlay? Are these goals strategic, tactical, or both?

Response: Parametric provides a futures overlay program that is used for maintaining IPERS' public market allocations within prescribed ranges of the Board's specified asset allocation targets.

38. What is the role of leverage, how is it implemented? Is it strategic, tactical, or both?

Response: IPERS has the ability to leverage the asset allocation by 2% for tactical asset allocation purposes. Alpha overlays using futures also introduce a degree of leverage.

39. How is the leverage facility structured?

Response: There is no leverage facility in place, nor do we anticipate having one if tactical trades are undertaken. IPERS will utilize futures to execute any tactical trades.

40. Do you find the existing performance and risk reporting sufficient and/or useful? What areas of analysis are you looking to expand, clarify, or eliminate?

Response: It is sufficient. If your firm believes it has superior reporting or abilities in this area, then you should point out those differentiating qualities in your response.

41. How are tactical trades evaluated and can you share a copy of the valuation metrics used? Can you also share an example of the formal documentation to engage in a tactical trade?

Response: IPERS has not yet performed a tactical trade or finalized its decision model, so there is no formal documentation to share.

42. How and by whom are ex-ante active risk forecasts developed?

Response: Forecasts are developed by staff with assistance from the consultant.

43. How and by whom is active risk managed ex-post?

Response: Ex-post active risk is monitored and evaluated by staff and consultant.

44. What challenges have you had in communicating investment strategy to the Investment Board or other stakeholders?

Response: Very few. Our approach has been to "teach and re-teach" key investment strategy concepts before asking for Board approval of a specific strategy. This approach can take longer, but we believe it provides Board members (and stakeholders) the time needed to ask questions and thoughtfully consider the risks and rewards of a proposal.

45. What is the primary goal of the "Global Smart Beta" allocation (e.g. – alpha generation; diversification; an unfavorable view of cap-weighted indices)?

Response: IPERS' global smart beta equity allocation represents a passive, long-term tilt to equity factors known to persist over time (such as value, low-vol, momentum, quality, and size).

- 46. Is IPERS investment staff able to meet annually at the consultant’s office for an annual strategic planning session with consultant’s specialty staff, or are all planning meetings held at IPERS facilities?**

Response: IPERS would prefer to have most strategic planning meetings at our office. This is a situation where consultant’s specialty staff could possibly attend virtually while the Primary Consultant staff attends in-person.

- 47. Please provide a copy of or the terms of IPERS’s existing performance-based investment consulting fee arrangement.**

Response: See Exhibit 1 at the end of this document for sample language.

- 48. In response to question 3 on page 19 of the RFP, please clarify how respondents should identify personnel as “senior associate level” and above.**

Response: Only associates, junior associates and interns would rank below a senior associate. If you do not use these titles in your organization, then use your discretion in answering the question, but be sure to provide the titles of all personnel provided.

- 49. In response to question 3 on page 19 of the RFP, please clarify how respondents should define those “accounts for which this person [consultants that will be assigned to the IPERS relationship] has support or backup responsibilities.”**

Response: We want to know the number of assigned accounts for which the person serves as a backup or supporting consultant, i.e. not a Primary Consultant.

- 50. Questions 7-9 on page 20 of the RFP do not differentiate between discretionary and non-discretionary consulting clients and assets. Should these two categories be grouped together or reported separately?**

Response: Please report the two categories separately.

- 51. Question 1 on page 23 under “Cost Proposal” indicates that a ‘fixed annual fee’ is desired. However, question 6 on page 23 suggests that IPERS may be willing to consider an annual fee escalation adjustment. How should the fee for the six-year term be expressed: a flat annual fee in each of the six years, or an escalating fee in each of the six years of the expected term?**

Response: We suggest you decide what annual inflation rate you desire your initial fee to grow by each year and then provide the escalating fee for each year in the six-year period. So, if your first year fee is \$100,000 and you want it to grow approximately 3% annually, the fee proposal could be stated as follows:

Year 1: \$100,000	Year 2: \$103,000	Year 3: \$106,100
Year 4: \$109,250	Year 5: \$112,550	Year 6: \$115,950

Exhibit 1 –Sample Performance Fee Language

The Adviser agrees to the following deliverables, the established deadlines for each item, and the corresponding fee reductions in the event such deliverables are not received by IPERS on time:

- a. Monthly Performance Reports – Due in electronic form to specified IPERS staff members 30 calendar days after month-end, with a penalty of \$100 per business day for every day the report is late if determined to be Adviser’s fault.
- b. Quarterly Performance Reports – Due in electronic form within 50 calendar days following the end of each calendar quarter, with a penalty of \$100 per business day for every day the report is late if determined to be Adviser’s fault.
- c. Annual Asset Allocation Assumptions Report - Due annually by June 30, with a penalty of \$100 per business day for every day the report is late.
- d. A report to the System, within 60 calendar days of each fiscal year-end of the Adviser, describing all business lines from which the Adviser receives revenue, the amount of such revenue, and any potential conflicts of interest such business lines could have with Adviser’s ability to provide the services described in this Contract. For each business day the report is late, a \$100 fee reduction shall apply if determined to be the Adviser’s fault.
- e. Semiannual reports for presentation to the IPERS Investment Board detailing IPERS’ investment performance (at December 31 and June 30) at the total fund, asset class and Manager levels, and comparing such performance to appropriate market indices and peer universes. The reports will be due to IPERS, in electronic form not later than 80 calendar days after the end of the reported period. For each business day that the reports are late, a fee reduction of \$100 shall apply if determined to be the Adviser’s fault.
- f. An annual report for presentation to the IPERS Investment Board detailing the asset allocation return, risk and correlation assumptions utilized for the System, the results of asset allocation simulation modeling performed by Adviser and staff, and the recommended asset allocation policy for the System. The report will be due, in electronic form, not later than 75 calendar days after the System’s fiscal year-end. For each business day afterwards, a fee reduction of \$100 will apply, if determined to be the Adviser’s fault.
- g. Other reports and projects to be determined and agreed to by System and Adviser and amended to this Contract.
- h. A \$1,500 fee reduction per revised report shall apply for any report required in this Agreement that must be revised after the applicable deadlines established in this section due to a material factual error on the part of the Adviser.