Real Assets Credit Strategies
RFP #I-2022-1
Response to Inquiries

1. Can you share guidance about IPERS' approach regarding leverage terms, restrictions, preferences, etc.? I didn't see any mention of this in the RFP document. Does IPERS have strict limits or preferred terms with regard to leverage?

   IPERS' does not have strict limits or preferred terms regarding leverage. We are currently cautious around the use of leverage but believe there are situations in which the use of leverage could be beneficial. For strategies that utilize leverage, we will evaluate the risk-return characteristics accordingly.

2. Are you willing/able to accept submissions for the mandate from non-US focused managers?

   Yes. NOTE: All non-US focused managers should include information around their FX hedging strategy as part of any mandate.

3. Return Expectations
   - We note the minimum returns requirement for the IPERS Private Credit investment portfolio in Part 1 A of the RFP document. Please can you provide some further colour on the target returns expectation for the proposed mandate?
   - Please indicate whether there is a minimum or target annual distributable income requirement for the proposed mandate?
   - What is the expected / preferred duration (fund life) of the proposed mandate?

   We are anticipating mid to high single digit returns, net of fees, for most of the mandates evaluated through this search process. Strategies targeting more opportunistic returns, potentially through the use of leverage and/or less efficient target markets, will also be considered.

   We do not have a minimum target annual distributable income requirement.

   There is no expected / preferred duration for the fund life. We will evaluate the fund life on a case-by-case basis.

4. Minimum AUM as of 30th June 2021
   - We note per Part 1 D of the RFP document the minimum requirement to have at least $250m AUM for the proposed product. Please confirm this will be assessed as AUM across multiple investing vehicles (fund series and SMAs) within the same investment strategy rather than the specific investment vehicle being proposed?

   Correct. The AUM requirement will be evaluated across all vehicles that run the same investment strategy. NOTE: Exhibit A will be utilized as support for this minimum requirement.

5. Leverage Appetite
   - Please could you indicate any views, requirements or preferences with regard to balance sheet (financial) leverage?

   See the response to #1.

6. Regarding the contracts terms and conditions outlined in Part 4 of the RFP, is the indemnity provision mentioned required pursuant to Iowa law? Our internal Legal department is reviewing the terms and just wanted some further clarification on that point.

   Yes, the indemnity provision is pursuant to Iowa Law.

7. Regarding Part 3, Section C, Questions 1 and 2; as well as the "Definition of Product" in Part 1, Section D:
   [redacted] has the capability to manage an SMA combining any of these capabilities which we believe may be in scope for Real Assets Credit at IPERS across:
   A. Energy under IPERS "Other" sub-category
   B. Asset Based Credit under IPERS "Real Estate Credit" and "Other" sub-categories
   C. Opportunistic CMBS securities under IPERS "Real Estate Credit" sub-category

   As such, can you please clarify regarding Part 3, Section C, Questions 1 and 2:
   - Are any of A, B or C above not of interest to IPERS?
   - Would IPERS prefer submissions to this RFP:
     - As one submission treating the hypothetical SMA as one "Product", or
     - Separate submissions with detail on each of A, B and C and a reference to a potential combined SMA within?

   All three capabilities mentioned above are of potential interest. We would note that the Opportunistic CMBS securities piece would only be of interest as a smaller piece of any broader mandate and not as a standalone mandate.

   IPERS' preference would be for one submission. NOTE: The submitting manager should be able to demonstrate a track record and AUM for the proposed Product. It cannot be hypothetical and/or demonstrated through multiple mandates running various strategies.

8. Regarding Appendix I – Private Credit Strategy Track Record:
   [redacted]'s track record carve out in Asset Based Credit spans 10+ years and $3.6+ bn of invested capital and we are currently in market with a dedicated fund; however, no account or fund historically was dedicated exclusively to this strategy.
   - Would IPERS consider a pro-forma carved-out track record for [redacted] Asset Based Credit?

   No. Pro-forma track records will not be considered.

9. Background: [redacted]'s Commercial Real Estate Dislocation Fund III is our third series dedicated CRE drawdown fund. [redacted] has been in investing in CMBS since 2011 and launched our first dedicated CRE Fund I in 2016. We currently manage approximately $1.1 billion of Commercial Real Estate assets across [redacted]'s platform. We had our first close for CRE Fund III in April 2021, with commitments of $167MM and anticipate the Fund to be between $300-500MM. Thus far, for CRE Fund III, we have invested about $140MM of the initial committed capital and anticipate to have invested approximately $200MM+ by final close.
   - Question: Given that [redacted]'s prior CRE vintages total over $420MM in currently invested CRE assets coupled with the additional ~$650MM of CRE asset we currently manage on our platform, along with an estimated $200MM+ of CRE assets invested by final close in CRE III, does this fulfill the $250 million requirement listed in Part 1 section D(3) of the RFP?

   If the submission is for the CRE Dislocation Fund series, we would require that the minimum requirements be met through this series of investments, unless other similar strategies can be identified and confirmed.

10. Background: [redacted]'s Commercial Real Estate Dislocation Fund III expects to have a final close in Q1 2022.
    - Question: Would this timing line up with your investment objectives?

    Yes

11. Background: [redacted]'s CRE Fund III is currently organized as a Delaware limited partnership.
    - Question: Does this structure work for the proposal?

    Yes

12. We had a question on Appendix IV - Personnel Turnover. Would you be able to clarify how you would like us to calculate the "% Turnover" in the summary table.

    # Departed / Total # of Professionals at beginning of the year

13. Is Iowa PERS open to considering an investment in a commingled fund vehicle, such as an open-end private limited partnership vehicle?

    Yes

14. Is Iowa PERS comfortable with the use of financial leverage in connection with the acquisition and financing of the Fund's investments?

    See the response to #1.

15. Regarding the use of the S&P/LSTA LLI Benchmark: Kindly advise whether the comparison to the benchmark will be in terms of YTM, IRR or Total Return +100 BPS. In case either the IRR or Total Return+100 BPS will be used, please specify what time period (e.g. 1 year, 2 years, 3 years) will be used to evaluate returns vs. the benchmark. If possible, please state the figure that would have been used as benchmark for the period ended June 30, 2021 along with the aforementioned information.

    Please note that the S&P/LSTA LLI Benchmark referenced is for IPERS' overall Private Credit program. The evaluation of individual mandates will not be relative to the Benchmark.

16. We noted that you have a preference for a managed account for this mandate. What structural features do you consider to be most important?

    Investment guidelines, fees and legal are the three most important structural features. We would also note that our preference has been for evergreen managed accounts when possible.

17. Can IPERS provide a debt template for manager performance track record. Alternatively, may we modify the template you provided to provide relevant metrics for the proposed debt strategy?

    All respondents must provide Exhibit A as requested.

    Respondents who would like to provide an additional template in their response to Part 3, Question E.1 may do so if they believe it will be additive to their response.

18. Does IPERS plan to make a onetime allocation to the manager(s) chosen for this mandate or will allocations also be made at future intervals?

    There will be a potential for additional allocations.

19. We would please like to confirm we meet the minimum requirement for consideration: "The firm must have at least 3 years' experience managing the proposed Product as of June 30, 2021, evidenced by a minimum 3-year continuous performance track record as of that date." Although our Real Estate Debt Platform track record extends well beyond 3 years dating back to 2012, the offering we would propose has a track record of 2.5 years. Would the offering meet the minimum requirement, given that our platform track record demonstrates the minimum continuous performance (offering product is consistent with platform track record)?

    If you can demonstrate that the offering product is consistent with the platform track record, you should meet the experience requirement.

20. Our Real Estate Debt strategy has both a levered and unlevered fund offering. The strategy and risk profile of the loans are the same for both funds, with the only difference being the use of modest leverage. Should we submit 2 separate proposals, one for the levered fund and one for the unlevered fund, or submit the strategy as a single submission and detail the differences?

    Please submit as one response and detail the differences.

21. With respect to your definition of the Product, confirming an asset-focused alternative credit strategy pursuing illiquid, directly-originated investments and tradable securities in which diversified portfolios of loans, leases and other types of receivables comprise the security and generate the contractual cash flows that form the basis of each investment would be classified as a Real Assets Credit: Other Product?"

    Yes. NOTE: The illiquid, asset-focused portion of the strategy should constitute the majority of the proposed Product.

22. We would please like to confirm we meet the minimum requirement for consideration: "The firm must have at least 3 years' experience managing the proposed Product as of June 30, 2021, evidenced by a minimum 3-year continuous performance track record as of that date." Although our Alternative Credit Platform track record extends well beyond 3 years dating back to 2011, the offering we would propose was incepted in July 2021. Would the offering meet the minimum requirement, given that our platform track record demonstrates the minimum continuous performance (offering product is consistent with platform track record)?

    See the response to #19.

23. Can you please confirm your timing expectations for allocating capital to the strategies that are chosen? As an example, for an evergreen strategy that is expected to hold semi-annual subscription periods in Q1 2022 and Q3 2022, does this time frame align with your expectations/needs to deploy capital?

    Yes.

24. If we have private debt strategies whose historical returns are below that of the S&P/LSTA Leveraged Loan Index + 1, would you consider these, or must all strategies submitted historically exceed this return objective?

    Our preference is for strategies that would be additive to the program's overall return objective. The respondent would have to demonstrate the strategies benefits within a portfolio despite not being additive from a return perspective.

25. Would you consider a strategy that is not currently levered (and thus does not have a levered track record) but we could apply leverage to in a new separately managed account? The unlevered version of the strategy does have a >3 year track record.

    Yes. We would consider the unlevered strategy.

26. Are there any limitations related to where the assets are located (i.e. Europe, US, etc.) and/or currency (i.e. USD, GBP, EUR, etc.)?

    There are no limitations related to where the assets are located. Our preference is for USD based investment strategies. NOTE: All non-US focused managers should include information around their FX hedging strategy as part of any mandate.

27. For the redacted version, can we mark the entire RFP confidential? Or would you like text blacked out?

    You cannot mark the entire response confidential (as stated in paragraph C on page 6 of the RFP). Text should be blacked out.

28. The firm must have at least 3 years' experience managing the proposed Product as of June 30, 2021, evidenced by a minimum 3-year continuous performance track record as of that date.
    - Although [redacted] has not been in existence for 3 years, we do have an 18+ year track record managing net lease assets. Can we confirm this won't immediately disqualify us?

    If the firm has not been in existence for 3 years, this would disqualify you from further consideration.

29. The Product must have at least $250 million in assets under management (**NOTE: this figure should not include uninvested commitments**) as of June 30,2021.
    - While [redacted]'s AUM is less than this currently, the target fundraise for [redacted] is $750 million. We have approximately $1.4bn in AUM for all of our net lease assets as of 6/30/21. As a firm, [redacted] has $53.1bn in assets under management. Can we confirm this won't immediately disqualify us?

    Any strategies that are similar to the offering Product and that you would include in Exhibit A will be utilized in determining whether or not the firm meets the AUM requirement.

30. How is it expected that ~$600 million will be allocated to the various RAC categories ($ to each)?

    IPERS will base allocation decisions on quality of proposals received and not necessarily by the RAC categories provided.

31. If a firm proposes to advise/manage on one RAC credit category a) are its chances of being awarded a mandate reduced?, and b) historically, has IPERS awarded multiple mandates (each for an individual asset category) from a similar, broader asset class RFP, or do they typically go to one advisor?

    No.

    See the response to #30.

32. As it relates to the required contract terms and conditions on pages 15 and 16, we typically discuss this information once an investor has commenced formal diligence on our fund. We would be happy to speak about this information at that point in time. Please advise whether this is acceptable to move forward with formal submission.

    We have further qualified our legal requirements below. Respondents must be willing to accept these at a minimum as part of their formal submission to move forward in the process.

    1. In respect to indemnity from liability, IPERS requires this provision in separately managed account agreements and will not deviate from the provision as written;
    2. In respect to sovereign immunity, IPERS requires this provision in all agreements. IPERS will not entertain substantive changes to this provision;
    3. In respect to jurisdiction of disputes, IPERS requires this provision as it relates to any restrictions mandated by Iowa Law.

33. [redacted] has a 3 year track record managing a European Real Estate debt strategy focused on whole loans with just about $200m AUM. The real estate debt business at [redacted] sits as part of a broader $22 billion real estate platform. Across this platform, we manage close to $1 billion in real estate lending globally. Moreover, we are making a significant investment in European real estate debt by adding to the team and product set. We will be holding the first close of our next European Real Estate Debt fund in September which will get us closer to IPERS stated $250m AUM threshold on the platform overall. The expanded team brings a track record of executing $12 billion dollars of transactions/originations across Europe in the last 5 years. The portfolio manager of the current $200m European Real Estate debt fund is a senior member of the expanded team. Based on the above information, would you consider a European Real Estate debt submission from [redacted] with the knowledge that the product itself does not have $250m AUM as of June 30, 2021.

    No. The European real estate debt strategy would not meet the AUM minimum requirement as of June 30th, 2021.

34. The global reach of [redacted] Real Estate debt platform spans the US, Europe and Australia with a dedicated team in each geography. In the US, we manage around $500m AUM in Commercial Real Estate loans across segregated mandates and co-mingled funds (with another $1.5 billion to deploy). In Australia, the team has originated around $300m in loans on that continent. As stated above, the European Real

Estate Debt strategy is currently around $200m. Would IPERS consider a real estate lending solution which combines these three seasoned strategies into one vehicle? The stated vehicle would not have a stand alone track record or AUM at the outset.

No. If the stated vehicle does not have a stand-alone track record or AUM it would not be considered.

35. For the mandate, is there a preferred IRR (Gross, Net or both) or return range?

No. We anticipate the return range for the majority of the mandates to be mid to high single digit returns, net of fees.

36. Would IPERS prefer to limit its investment exposure to countries in the OECD?

Yes.

37. Are co-investment opportunities of interest to IPERS?

Yes.

38. Is a fund-of-one an acceptable structure or would IPERS require a separately managed account (SMA), in which the assets are held in IPERS' name?

A fund-of-one structure is acceptable.

39. Will IPERS allow for real estate construction lending in the product?

Yes.

40. Is there a limitation on advance rates?

No. This would be discussed at the time investment guidelines are determined with the successful bidder.

41. Would IPERS consider using an unfunded capital commitment to backstop financing for a debt investment program?

IPERS would consider such a strategy assuming it meets all of the minimum requirements.

42. The Product must have at least $250 million in assets under management (**NOTE: this figure should not include uninvested commitments**) as of June 30,2021
    - Should the term Product be interpreted to mean only the AUM of the current Fund being raised, or of the amount of AUM in the Strategy (which has seen multiple Funds raised historically over time).

The AUM in the strategy.

43. [redacted] has an unlevered and levered share class. The unlevered targets net returns of ~ 6.5% to 7.0% and the levered strategy (which is modestly levered at 0.3X to 0.4X) targets net returns of 9.0%. We believe both could satisfy the objective of beating the leveraged loan index + 100bps but if you could provide any further guidance, that would be helpful.

    See the response to #20.

44. In reference to Part 5 Appendix I, can we provide performance as time-weighted returns vs. IRRs?

    No. Appendix I information should be provided as requested.

45. As outlined in the Definition of Product section on pages 3 and 4 of the RFP, does CRE Structured Credit include Mezzanine Debt and securities?

    Yes.

46. As outlined in the Definition of Product section on pages 3 and 4, can you provide clarification on how IPERS differentiates US CRE Transitional Lending and US CRE Bridge Lending? The Private Markets Investment Policy highlights a deep focus on income producing assets, are there additional details you can provide that highlight the different risk profiles between transitional lending and bridge lending as defined by IPERS?

    IPERS would consider CRE Transitional Lending as loans secured by assets that are being upgraded, repositioned and/or released and CRE Bridge Lending as short-term loans used by a borrower that is working towards permanent financing, or sale, of an asset.

    We would consider both of these strategies higher risk than the balance of our Real Assets Credit portfolio.

47. As outlined in the Definition of Product section on pages 3 and 4, does IPERS include CMBS and REITs within the definition of Real Estate Credit?

    No.