

Absolute Return Strategies RFP #I-2022-2 Response to Inquiries

1. Question on the firm must be willing to accept a performance-based fee arrangement. Is the proposal for Performance/Incentive fee only, or would you be willing to accept some combination of Management/Incentive fee? Any examples of the type of fee arrangement you are looking for would be helpful.

IPERS is willing to entertain a combination of management and incentive fee. IPERS prefers a majority of the fee outlay remain performance based.

2. Under Part 1 C of the RFP (Minimum Requirements) item 3 states: “The firm must be willing to accept a performance-based fee arrangement.” What does that mean? Our investment funds charge a management and performance fee. Is this requirement stipulating that the investment management fees be composed only of a performance-based component and that no management fee component is permissible?

See response to Q1.

3. As a European manager, we rely on an exemption from registration with the SEC / the Investment Advisers Act of 1940. Do we still qualify to participate in this RFP?

Yes, but we will require proof of said exemption and proof of UCITS/other compliance.

4. This question relates to minimum requirement 4, “Product must have a continuous, proven and verifiable track record of at least five (5) years as of June 30, 2021, with returns that fully comply with the CFA Institute’s GIPS performance reporting standards”. If we proposed a hedge fund portfolio that met IPERS risk, return and beta objectives, is being GIPS compliant an absolute minimum requirement given that most hedge funds are not GIPS compliant?

We will accept it, but only on the condition that the firm agrees to cooperate for independent verification of the Product’s performance record in the event the Product is selected.

5. Is IPERS open to considering a hedge fund of fund managers for this mandate, that can build a customized separate account or direct hedge fund portfolio that meets their risk, return and beta objectives?

IPERS is open to fund of fund structures that have had this structure for other clients and meet the minimum requirements. IPERS at its sole discretion may choose to customize any product at a later stage to suit its portfolio construction needs.

11. We currently run \$2bn of our Absolute Return “Product” within a larger multi-strategy portfolio. But we would like to put forth for IPERS consideration the Absolute Return “Product” standalone. Would IPERS consider our multi-strategy portfolio’s \$2bn in exposure to this Absolute Return “Product” as meeting the \$1bn asset under management threshold?

See response to Q10.

12. One quick question/observation regarding the RFP requirements. We do not meet the first two requirements:
1. Considering we only trade futures, we are registered as a CTA and CPO with the CFTC (exemption 4.7 in place). Plus, we are a licensed asset manager with FINMA (SEC equivalent in Switzerland).
 2. Our AuM, as of end of June 2021 stood at USD 787MM.

I simply wondered, if the IPERS team has any discretion regarding these points (specifically point 2) in the event that the manager does display superior quantitative metrics that are considered during Phase 1.

IPERS will not consider proposals that do not meet the minimum requirements.
No, IPERS team does not have any discretion on minimum AUM.

13. Is there a return target for this mandate?

No.

14. Is there a liquidity constraint for this mandate?

No, IPERS will evaluate liquidity considerations later in the evaluation process.

15. Will Iowa PERS consider fund of hedge fund mandates or only direct strategies?

Yes, IPERS will consider fund of hedge fund mandates.

16. Are there any strategies that Iowa PERS will not consider?

IPERS will consider any Product that meets the minimum requirements.

17. Does Iowa PERS plan to choose one or more managers?

IPERS does not commit to hiring any specific number of managers.

18. I’m reaching to see if you accept international managers for the subject RFP. We meet all the other minimum requirements as detailed in the RFP except for the #1 on SEC registration, because we, as the fund manager, are only registered with the SEC as an Exempt Reporting Advisor. Our fund is registered in Cayman Island with a Master/Feeder structure. It is dominated in USD and has a US-feeder fund for US investors.

See response to Q3.

19. Our strategy predates the existence of our fund, accordingly, we intend to submit both a share class track for the prior 5 year period in respect of the fund as well as a separate strategy track dating back to the strategy's inception (the "Strategy Track"). This will enable you to consider the Product's performance since inception. So as to present the information on a consistent basis, we intend to adjust the Strategy Track so that its volatility target and applicable fees are the same as the aforementioned share class data. The Strategy Track is not back-tested data - it is derived from actual trading and includes transaction costs and fees. Please can you confirm that we can include an additional "Adjusted Net Performance" tab in Exhibit A containing our Strategy Track so that you can consider the strategy's performance since inception?

Yes, please include the data with adequate comments.

20. We note that the instructions for Exhibit A specify that only certain limited information can be included in the spreadsheet comprising Exhibit A.

- a. Since the data being provided is net of fees, please can you confirm where you would like us to set forth the fee rates applicable to the disclosed track record data?
- b. Should we send disclaimers and any required explanatory/regulatory disclosure information in relation to Exhibit A in a separate document?

- a. Please provide additional notes as an addendum to the Word document.
- b. Yes.

21. Does a 1.25% management fee and 20% incentive allocation qualify as a "performance-based fee arrangement"?

Yes.

22. Should we submit our proposal as a standalone document? Or should we input our responses directly into the RFP document itself?

We prefer you insert responses into the RFP document.

23. Is GIPS or Compliance Rule 2-34 of the NFA Manual a hard requirement or can we provide audited fund track records? In our instance, the auditor is PwC.

See response to Q4.

24. [REDACTED] is not a 40 act manager but registered as an US Investment Advisor. Does it meet your expectation?

Yes.

25. Is it a must requirement to excess AUM of 1B USD at product level?

Yes, but see response to Q7 for clarification.

26. Does the performance-based fee arrangement mean no management fee?

See response to Q1.

27. We wanted to reach out in regard to the absolute return RFP search to inquire if a multi-manager (fund of hedge fund) investment solution would be acceptable or considered?

See response to Q15.

28. **“The firm must be willing to accept a performance-based fee arrangement.”** In regard to this requirement, will IPERS consider a management fee + performance fee framework or is this proposal for a performance based fee structure exclusively (i.e., 0% management fee)?

See response to Q1.

29. Is there a volatility target or volatility range for the product?

No.

30. Our Fund’s reporting is not GIPS compliant, however, [REDACTED] and each of our funds has engaged [REDACTED] to provide quarterly performance verifications. These performance reports are distributed to fund investors on a quarterly basis. If this is satisfactory, I would like to include this clarification in the cover letter.

See response to Q4.

31. We would be pleased to submit for your posted absolute return rfp but wanted to clarify the registration / exemption requirement. Does the bank exemption also include consideration of a manger that is exempt from SEC registration under the foreign private adviser exemption Section 203(b) of the Investment Advisers Act of 1940? If not, would you mind providing some brief details around why this foreign private adviser exemption is not accepted? We greatly appreciate the feedback.

See response to Q3.

32. I am reaching out to you to enquire about the minimum track record of 5 years. The launch of our [REDACTED] Macro Fund was Oct 1, 2017. However, [REDACTED] pro forma track record while on the [REDACTED] platform on [REDACTED] goes back to May 1, 2013. Would providing these records meet the minimum criteria?

No, IPERS will not accept pro forma track records.

33. You state that returns must fully comply with the GIPS performance reporting standards. Unfortunately, our performance track record is not currently GIPS compliant. This is something we are working on and hope to achieve in 2022. However, the track record is continuous, proven and verifiable. This follows an unconstrained, segregated, model portfolio of £1 million set up in 1994 to follow [REDACTED] investment approach, hedged to USD, after deduction of all fees.

[See response to Q4.](#)

34. Secondly, the RFP states that the firm must be willing to accept a performance-based fee. [REDACTED] charges all our investors a flat, annual fee of between 0.9-1.1%, depending on investment size. We do not charge performance fees, nor any other hidden costs. We believe this is very competitive within our industry and avoids incentivizing short term risk taking, which would contradict our absolute return philosophy. [REDACTED] is structured as a partnership and the 61 partners receive a significant proportion of their remuneration as units in the strategy, which we believe aligns the Firm's incentives with those of our investors.

[See response to Q1.](#)

35. Regarding point #2 of the minimum requirements: A dedicated fund for our proposed strategy launched in June 2020. The fund has 15-month track record with approximately \$860M of AUM as of August 31, 2021. While the fund is relatively new, the Firm has managed assets in this strategy as a component of our flagship hedge funds dating back to 2009. At June 30, 2021, assets managed in this strategy (non-inclusive of the \$860M in the dedicated fund) are approximately \$2.9B. Does this satisfy minimum \$1.0B AUM requirements?

[See responses to Q7 and Q10.](#)

36. Regarding point #4 of the minimum requirements: A dedicated fund for our proposed strategy was launched in June 2020 and therefore has a 15-month track record as of August 31, 2021. While the fund is relatively new, the Firm has managed assets in this strategy as a component of our flagship hedge funds dating back to 2009. It would be unlikely that the monthly returns for the carve-out of the proposed strategy are GIPS compliant, so can you advise whether historical monthly returns of a carve-out would be considered in conjunction with monthly returns of our proposed fund/strategy.

[Component carve-outs may be used to illustrate AUM/capacity, but may not be used as a proxy for track records. So, No we will not consider it.](#)

37. Minimum Requirement #1 states that the firm must be registered as an investment adviser under the Investment Advisers Act of 1940. [REDACTED] is an SEC-registered investment adviser and an indirect wholly owned subsidiary of [REDACTED] based asset manager managing approximately \$2 trillion globally. [REDACTED] wishes to respond to the RFP by presenting a structure where [REDACTED] would be the investment adviser to the portfolio and would utilize [REDACTED]-based employees of [REDACTED] to provide many of the day-to-day

investment management services for the portfolio under the direct supervision of [REDACTED] pursuant to a participating affiliate agreement. Participating affiliate arrangements are structured to meet express SEC requirements to allow U.S. based investment managers to use the resources and personnel of foreign unregistered affiliates in providing investment management services to U.S. persons. All such personnel are treated as supervised/associated persons of [REDACTED] for purposes of this structure. Our participating affiliate arrangement is documented to meet all current SEC requirements. We believe [REDACTED] meets the standards of Minimum Requirement #1 through the use of a participating affiliate arrangement, but please confirm that this proposed arrangement meets the standards set forth in such section.

Yes.

38. Currently, our Absolute Return Strategy has \$2.7bn in AUM. We have several funds within the strategy, including two commingled funds, but unfortunately none of the individual funds meet the \$1bn requirement as of 30 June 2021. Are we able to still submit Funds for the proposal and qualify 'Product' as the entire Absolute Return Strategy?

Yes. See response to Q7.

39. Does "willing to accept a performance-based fee arrangement" mean that no management fee is allowed, or can there be combination of management and performance fees?

See response to Q1.

40. Is quarterly performance acceptable as a private market manager?

No. We require monthly performance details.

41. Regarding the Minimum Requirements for RFP # I-2022-2 (Phase 1): 3. The firm must be willing to accept a performance-based fee arrangement. Does this mean there will be no management fees paid, and just a performance fee structure? Are you able to provide an example of the fee structure?

See response to Q1

42. Regarding the Minimum Requirement that states the Product must have a minimum AUM of \$1B as of June 30, 2021: the Product we are proposing is our Global Macro Strategy which has \$560M in AUM as of June 30, 2021. However, we also manage several single-client accounts which trade a different mix of the same macro strategies employed in our Global Macro Product, and including those accounts our Product-related AUM as of June 30, 2021 totals \$2.22B. Can you kindly advise if including these Product-related assets qualifies us for this Minimum Requirement?

No. AUMs from different vehicles can be combined only if they trade the same investment strategy.

43. We are seeking to clarify question #3 in the minimum requirements (part 1, section C) stating “The firm must be willing to accept a performance-based fee arrangement.” Will a base management fee, plus a performance fee be acceptable?

See response to Q1.

44. **The firm must be willing to accept a performance-based fee arrangement.** Is this requirement specifying that the firm must be willing to accept a fee arrangement based only on performance? Our firm currently has a standard fee structure of 1% of assets annually and a 20% performance allocation which we view as a “performance-based fee arrangement”. Please let us know if this meets your requirement.

See response to Q1.

45. **The Product must have a continuous, proven and verifiable track record of at least five (5) years as of June 30, 2021, with returns that fully comply with the CFA Institute’s GIPS performance reporting standards or Compliance Rule 2-34 of the NFA Manual. (Note: simulated or back tested results for any portion of this period are not acceptable). The Product inception date must be clearly stated within the proposal response.** We believe our Product has a continuous, proven, and verifiable track record of at least 5 years. We would note that our Product’s returns and operations for each year end have been audited in accordance with U.S. GAAP and received an unqualified opinion in each of the 5 years referenced, and are believed to comply with Compliance Rule 2-34 of the NFA Manual (although [REDACTED] is exempt from registration as a commodity pool operator or commodity trading adviser and as such this Compliance Rule is not directly applicable). Would this be acceptable in meeting this requirement?

See response to Q3 and Q4.

46. While we appreciate that the definition of product does not restrict asset classes or financial instruments, we wanted to inquire whether customized fund of funds that allocate to third party managers will be considered?

Yes.

47. Would you consider a continuous, proven and verifiable track record that is an asset-weighted composite of portfolios calculated consistently with Compliance Rule 2-34 of the NFA Manual? If not, would you consider the track record of a representative account with similar characteristics to your mandate?

Yes.

48. Will IPERS consider multi-manager (e.g. fund of fund) strategies for this RFP?

Yes.

49. Is this RFP focused on what IPERS would consider “pure alpha” hedge fund providers (i.e. not alternative risk premia and not market risk premia)?

Yes.

50. The strategy we would like to propose was GIPS compliant from April 2009 through May 2016 and then transitioned to our firm with the same investment team on 9.1.16 and reached 5-years on 9.30.21. Can you please confirm if we meet the track record requirement?

The product does not meet the minimum requirement as of June 30, 2021, so it would not be acceptable.

51. The strategy is expected to have a beta of less than 0.3 to global equity markets, global rate markets, global credit markets and commodity markets.

- Can you please confirm how you will calculate beta?
- Is this product beta requirement at the individual manager-level or at IPERS' Absolute Return portfolio-level?
- Do all product submissions require less than 0.3 beta to equity markets, global rate markets, global credit markets and commodity markets?
- We will not disclose how we assess beta of the products.
- IPERS prefers strategies that have a low beta to global markets, but this not a minimum requirement.
- No.

52. Our flagship multi-strategy hedge fund program meets the requirements for assets under management and correlation metrics but was only officially launched in January 2020. The program allocates across internal strategies within the firm, the majority of which have track records dating well over 5 years (many of the core building blocks have 15-20 year tracks). We are wondering if we would be allowed to submit this strategy for consideration and, if so, should we provide just the live track or backtest returns as well?

We do not believe it meets the minimum requirements. IPERS will not accept back-tested results for performance.

53. The RFP states that “The strategy is *expected* to have a beta of less than 0.3 to global equity markets, global rate markets, global credit markets and commodity markets.” Is this just a desired characteristic, or is it a requirement? If it is just a desired characteristic, then to the extent the strategy does not precisely fulfill all the beta objectives, can we assume it may negatively impact the evaluation, but not disqualify? Alternatively, if it is a requirement, can we assume any strategy which does not fulfill the beta objectives will be disqualified?

See response to Q51.

54. Please clarify if the following approach is consistent with your requirements. The manager proposes an active absolute return strategy which has over \$1B AUM and more than a five-year GIPS-compliant live track record. Current implementation of this strategy is to pair it with various passive blended beta strategies, customized to your requirements as we do for clients with their specific objectives in separate account form. Whatever the specific composition of the beta portfolio, it is simply to harvest returns from unconditionally rewarded beta risk. Will the manager still qualify for the RFP if the absolute return strategy meets all of the requirements, but it is blended with a passive beta portfolio specific to IPERS which is not currently offered as a single strategy?

No. IPERS is only interested in strategies that are not blended with a passive beta. Specifically, IPERS would like to evaluate the active absolute return stream in isolation if it passes minimum requirements.

55. One of our composites meets all of your prescribed criteria for lack of beta to various global indices. Strategy level AUM meets the \$1bn minimum; however the track record that we would submit is from a composite that has more restrictive guidelines than the standard strategy. The “restricted guideline” version of the strategy does not meet the \$1bn AUM threshold. Is this permissible?

No.

56. Part 3.A.1. requires a Manager to be registered as RIA under the Investment Advisors Act of 1940, unless it is exempt under the bank exemption. Could you please confirm/clarify if firms who are registered as a CTA with the CFTC/NFA (and who are exempt from SEC registration under a different exemption) would indeed also qualify to submit a proposal?

██████████ - like many CTA's - acts as trading advisor trading mostly futures, not securities, and as such is regulated by the CFTC, not SEC. ██████████ has been registered as a Commodity Trading Advisor with the CFTC/NFA since 23 September 1994. In previous searches for Absolute Return Strategies IPERS has confirmed that this is fine, so I expect this is still the case, but just wanted to make sure.

Yes.

57. We have a question relating to Requirement #4 (*The Product must have a continuous, proven and verifiable track record of at least five (5) years as of June 30, 2021, with returns that fully comply with the CFA Institute’s GIPS performance reporting standards or Compliance Rule 2-34 of the NFA Manual.*): Is GIPS compliance verification required prior to the Phase I submission deadline or can it be completed at any point prior to the end of the RFP review process?

See response to Q4.

58. We have one question regarding the net of fees monthly performance returns. While we have a product GIPS composite in gross but also have an institutional fund returns in net. Can we submit both sets of returns to satisfy Exhibit A?

Yes.

59. We currently manage an absolute return global macro strategy that seeks attractive long and short investment opportunities across fixed income, currency, equity, and commodity markets, that has negative correlations to risk assets. As of 6/30/2021, the approach had US\$975 million in AUM within a global fixed income platform of US\$74 billion. With recognition of and respect for the stated US\$1 billion asset minimum for proposed products, would IPERS consider this strategy that meets the objectives of the search but has US\$975 million in client assets under management as of 30 June 2021?

No.

60. Can strategy track record be considered where there is not a full 5 year fund performance track record? The strategy predates the existence of the fund (launched in 2017) and its track record dates back to 2011 (and is derived from the historical, actual performance of the portfolio manager within an older existing fund at the firm). Please can you confirm that we can include our Strategy Track so that you can consider the strategy's performance since inception?

No. IPERS will not accept other firm's track record in lieu of the submitting firm's record.

61. Can a non-US investment manager be considered if it has a Participating Affiliate Arrangement with a US RIA?

Yes.

62. Given that the proposed funds cannot meet the minimum requirements under the RFP, can we amend the cover letter to take account of those elements of the minimum requirements which cannot be technically met?

No, please do not submit products that do not meet the minimum requirements.

63. On page 5 of the RFP under 'Scope of Services,' we are hoping to get further clarification on questions 1-3

1. Invest allocated funds in conformity with the investment policy and guidelines of the System, as defined in the contract established between IPERS and the firm. Provide discretionary management of the funds under the contract.
 - Our offering is a commingled fund subject to the terms of its Offering Memorandum. We would like to confirm that an external commingled fund with its own Investment Program and Strategy would be appropriate.

Yes.

2. Provide periodic reports and information relating to the firm's investment strategy and other pertinent information pertaining to the investment of the System's funds, as requested by IPERS. Provide monthly reports on portfolio appraisals, performance evaluation and attribution, and trading activities.
 - Our firm has a standard reporting package for investors in the fund. Are you able to share additional details about what type of reporting is required?

Not at this time.

3. Participate in public meetings on a periodic basis to provide information to the System concerning the investment performance of IPERS' portfolio and the firm's investment outlook and strategy for IPERS' portfolio.
 - Are you able to provide additional information on the nature of these meetings? (i.e. how frequent, location, who would be in attendance, how/when would these meeting be made public?)

Not at this time.

64. Under Minimum Requirements #3: The firm must be willing to accept a performance-based fee arrangement. Can you confirm if a performance-based (incentive) fee in addition to fund expenses is acceptable?

See response to Q1.

65. Does this search care more about Sharpe ratio (high risk-adjusted returns), or portfolio diversification / risk mitigation combined with absolute return profile? For instance, would you consider long convexity / risk mitigation strategies that are lower Sharpe standalone than a pure alpha-seeking hedge fund, but very diversifying to traditional risks (highly negatively correlated to equity risk)?

Yes, IPERS intends constructing a robust absolute return stream where various return profiles will be considered.

66. Would the mandate consider a single manager solution that invests in multiple sub-funds? For example, a "████████ Absolute Return" mandate, where IPERS would invest in a fund-of-one, that would allocate to a number of sub-funds to produce a multi-strategy return profile? Such a solution would wrap into one line item and the fee would be assessed on the net return of the combined solution.

Yes, provided this proposed mandate meets the minimum requirements of track record, AUM etc.

67. How firm is the \$1bn product minimum AUM (if we happen to be close in a given product, say \$950mn, would it be worthwhile to submit?) If question 66 above is permissible, may we consider the aggregate AUM of the sub-funds for this figure, or must each sub-fund be north of \$1bn in size?

The minimum AUM would be assessed on the invested aggregate.

68. Is there a minimum size or range of allocation expected for each manager hired?

No.

69. Is there an approximate number of managers which IPERS is looking to hire?

No.

70. What are the desired risk and return targets of the mandate?

IPERS does not have specific return or risk targets for this mandate.

71. Is IPERS willing to consider unfunded strategies?

Yes.

72. One of our strategies that qualifies for the minimum criteria has returns that are not GIPS compliant. However, they are calculated in the same manner by the Administrator using a time weighted rate of return. These returns are geometrically linked to calculate period returns. Will this suffice for submission?

See response to Q3 and Q4.

73. We are hoping to clarify if the System is open to funds that have a performance based fee structure (0 and 20), that is calculated above a pass through expense model. In other words, all expenses are passed through to the fund and then the fee structure is applied.

Yes.