

NEW MEXICO PERA RFP No. NM INV-002-FY17 (GLOBAL LOW VOLATILITY EQUITY)

QUESTIONS & ANSWERS

1. In section C1 and C2 of the questionnaire, we see you would like forecasting information on a fundamental-based approach and a quantitative-based approach. We follow a quantitative approach, however, will you confirm whether you would like us to respond to C1 with N/A or touch on that section inasmuch as it applies to our quantitative process?

Answer: Please indicate that your approach is quantitative and therefore not fundamental based.

2. In section C2, question 4, will you please confirm whether you consider a “straight factor-loading approach” to be a passive smart beta strategy or something else?

Answer: A passive smart beta strategy would be an example of a straight factor-loading approach.

3. The strategy we will be presenting has a GIPS compliant composite in which portfolio and benchmark returns are presented hedged to GBP (since our original client was from the UK). Since many clients prefer to see unhedged returns in USD, we also maintain those return series as well. They are based off the GIPS compliant composite, but are not GIPS compliant themselves. Would you prefer we present the unhedged returns in the body of the RFP and include the hedged returns in the appendix, or vice-versa?

Answer: Please present the unhedged returns in the body of the RFP with the appropriate notation that they are derived from a GIPS compliant composite.

4. Re: 2B - Contractor shall be responsible for paying any and all taxes, including New Mexico gross receipts taxes, assessed on the compensation received under this Agreement and shall identify and pay those taxes under Contractor’s federal and state identification number(s).

We would like to request clarity as to what New Mexico gross receipts taxes would need to be paid, and whether we would need to obtain a New Mexico state ID.

Answer: Because the tax consequences of performing services described in the Scope of Work may depend on the circumstances of each potential offeror, NMPERA refers you to the New Mexico Department of Taxation and Revenue [<http://www.tax.newmexico.gov/Businesses/gross-receipts.aspx>] for guidance.

5. Re: 5(3) - Contractor acknowledges, warrants, and represents to PERA that the following statements are true as of the effective date of this Agreement and agrees that the same are incorporated and made part of this Agreement: Contractor has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations, required by a government or governmental authority, including the State of New Mexico, for acts contemplated by the Contract;

Please clarify what authorities/consents are required by the State of New Mexico?

Answer: Because the registration requirements arising from performing services described in the Scope of Work may depend on the circumstances of each potential offeror, NMPERA refers you to the New Mexico Department of Regulation and Licensing-Securities Division [<http://www.rld.state.nm.us/securities-division/>] for guidance.

6. Re: 6 (C) - During the performance of all services by Contractor, PERA will retain all final decision- making authority with respect to the management and administration of the retirement plan(s) funded thereby and investments related thereto, subject to Contractor’s obligations as provided for in this agreement.

- a. What does this effectively mean operationally?

Answer: From an operational perspective, the Contractor's authority is limited by the Investment Guidelines that will be made part of the Contract. Notwithstanding any term of the Contract, PERA retains authority over management of the PERA retirement plan and the PERA Fund.

Does this mean the mandate is a non-discretionary mandate, i.e. advisory only?

Answer: Discretionary mandate

7. Re: 15 - With respect to the Client Account, Contractor shall not engage in transactions with either itself, including any affiliates or parent companies of Contractor, or other firms that provide investment management services to PERA except upon prior written approval of PERA.

- a. Will a list of "other firms" be provided?

Answer: This includes all investment managers that can be seen on PERA's performance reports on the website.

8. Re: RFP Introduction, Page 8, Part VI. Evaluation of Proposals, 6th paragraph, states the following: "If PERA elects to conduct interviews, discussion or negotiations with Offerors, PERA may establish a common date for submissions of best and final fee offers, if appropriate."

- a. RFP Appendix D, Fee Proposal Form. Page 2, Proposed Asset Based Fee section states: "Please include below your best and final offer for an asset based fee."
b. Question: Can you please let us know if we will be able to provide a best and final offer later in the process or should we provide it in Appendix D as instructed? Is the best and final fee offer applicable to both the asset based fee and the performance based fee?

Answer: PERA will provide finalists the opportunity to submit a revised best and final offer. Yes, the final offer should include both best asset-based and performance-based fees.

9. Re: RFP Questionnaire, Page 2, Directions, "Following Completion of the Questionnaire..." section, question 1 states: "Responses should be sent as attachments by e-mail to the Wilshire employee from whom you received the questionnaire..."

- a. Question: We did not receive this RFP from a Wilshire employee but have relationships at Wilshire. We will send our response to the provided general email address. Is there a specific person at Wilshire we should also send our response to?

Answer: Please submit the RFP to the nmpera@wilshire.com email address provided in the RFP.

10. Re: RFP Questionnaire, Page 11, Part C – Forecasting:

- a. Question: Our process is quantitative based but the models are based on fundamental first principles. Should we complete both sections C1. and C2. or do you prefer us to only complete section C2.?

Answer: See answer to question #1.

11. Section VII (E) – Indemnification (Page 11) of RFP NO. NM INV-002-FY17: "Will NMPERA consider changes to the indemnification language set forth in Section VII(E)?"

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would "materially change" the Agreement. Whether a proposed change is a "material change" shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be "material change" if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror.

12. One of the requirements is to have three U.S. pension clients. Please confirm the definition of "U.S. Pension Clients". For example, does this include:
- managing tax-exempt pension assets for subsidiaries that may not be domiciled in the U.S., but with whom we deal with parent company staff based in the U.S. on matters such as contracting and portfolio reviews?
 - managing tax-exempt pension assets for subsidiaries that may be domiciled in the U.S., but with whom we deal with parent company staff based in a country other than the U.S. on matters such as contracting and portfolio reviews?
- Answer: By "U.S. Pension Clients" NMPERA means pension plans that are subject to U.S. laws generally applicable to investment of pension plan assets including but not limited applicable requirements of ERISA, the Internal Revenue Code, FATCA, and U.S. and state securities laws regardless of where the client is domiciled or has its principal place of business.**

13. In Part III Section B Question 4(f) of the RFP it is noted that at least a "three year history of performance" is required to meet the Minimum Qualifications; however, later we read that it is requested that the offeror "attach a GIPS-compliant presentation for this product" (see Appendix X of the Equity Investment Manager Questionnaire). Is it then a requirement that the "three year history of performance" for the product be GIPS-compliant? If yes, will option based strategies be reviewed on a case-by-case basis? If not a requirement is it recommended, even for options based strategies, that the product track record be GIPS-compliant?
- Answer: A GIPS compliant track record is preferred, but will be reviewed on a case by case basis for option-based strategies. It would be helpful if the reason(s) the return stream is not GIPS compliant is (are) included.**

14. Please advise to which Wilshire employee the questionnaire should be e-mailed to if it was downloaded directly from the PERA website. (Appendix B – Equity Investment Manager Questionnaire – Directions page)
- Answer: Please return the RFP submission to nmpera@wilshire.com.**

15. XYZ FIRM is interested in submitting a proposal for the Public Employees Retirement Association of New Mexico's ("NM PERA") RFP No. NM INV-002-FY17. The firm is proposing an equity index options-based strategy ("Strategy A"), which is algorithmic in nature. The firm has a 5-month live track record with approximately \$250MM in AUM and a 6-year history of simulated performance in the same Strategy A. Given the algorithmic nature of Strategy A, we believe the historical simulated performance is relevant to consider as part of the strategy's performance. Additionally, we have over \$3B in equity overlay strategies, using equity index options for other institutional accounts. We understand that options strategies are considered on a case-by-case basis. Please confirm that we are eligible to propose Strategy A for this RFP.
- Answer: Option-based strategies will be reviewed on a case by case basis.**

16. Does NMPERA have a preference for active or passive management as it relates to this RFP for Global Low Volatility Equity Investment Management Services?
- Answer: The mandate will be 70% passive and 30% active, this RFP is for the active portion.**
- May we use our own branded template when responding to the RFP?
- Answer: No**

17. Do you have ISDA Master Agreements in place for OTC options trading in a separately managed account: If so, can you please let us know the brokers with whom they are in place? If not, would you be willing to enter into ISDA Master Agreements to facilitate the use of OTC options in a separately managed options account?

- a. *Related to Part II.A, paragraph 1, page 3 of the RFP, regarding NM PERA's preference for a separately managed account.*

Answer: NMPERA does not have ISDA Master Agreements in place. We request the manager be responsible for setting up the agreement for a separate account.

18. For an options-based strategy, are you anticipating that the investment manager will also manage the underlying equity and/or cash exposures? Or is your preference for solely an options overlay strategy to be used on underlying positions already in place in the PERA portfolio?

- a. *Related to Part II.A, paragraph 1, page 2 of the RFP, to clarify the scope of services requested for an "option overlay based strategy."*

Answer: The manager will be responsible for the underlying equity and/or cash exposures.

19. The Description of Services states that PERA's proposed investment strategy benchmark is the MSCI ACWI Minimum Volatility Index but that you would consider a different performance benchmark. Would you consider a beta-adjusted MSCI ACWI Index for both performance measurement and performance based fee calculations for options-based strategies along with MSCI ACWI as a performance benchmark over a full market cycle?

- a. *Related to Part II.A, paragraph 1, page 3 of the RFP as well as Appendix F, Item A Investment Policy, p. 6 & Exhibit B, and Appendix D*

Answer: No

20. Section 5 – Contractor's Acknowledgements, Warranties and Representations –

- a. Section 5(3) – Notwithstanding the certification provided by FIRM A to PERA on or about February 15, 2017 in connection with this RFP, if FIRM A is awarded the mandate we would like to discuss minor revisions to the representation, in order to tailor the representation more narrowly to the purpose of the Agreement.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would "materially change" the Agreement. Whether a proposed change is a "material change" shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be "material change" if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror.

- b. Section 5(6) – Assuming "positive net worth" to mean assets in excess of liabilities, FIRM A confirms that it currently has a positive net worth and will use best efforts to maintain a positive net worth for the entire term of the Agreement.

Answer: NMPERA acknowledges your response.

21. Section 6 – Standards of Performance

- a. Section 6(A) – If FIRM A is awarded the mandate, FIRM A requests to discuss minor revisions to the covenants regarding FIRM A's acquisition of licenses and performance in accordance with applicable laws in order to tailor the covenants more narrowly to the purpose of the Agreement.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would "materially change" the Agreement. Whether a proposed change is a "material change" shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed

change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror.

22. Section 7 – Indemnification

- a. Section 7(A) – FIRM A will agree to indemnify and hold harmless PERA from direct losses resulting from FIRM A’s own negligence, gross negligence or willful misconduct. FIRM A cannot agree to indemnify for any indirect losses or losses not due to FIRM A’s own negligence, gross negligence or willful misconduct.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would “materially change” the Agreement. Whether a proposed change is a “material change” shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror. With regard to the indemnity provision set forth in paragraph 7(A) of the Sample Agreement, NMPERA recognizes that the term “damages” as used in this standard state contract provision must be construed in the context of an agreement for investment management services. Otherwise, NMPERA will only consider a limitation of the scope of actions for which the indemnity applies in accordance with this response.

- b. Section 7(B) – With respect to ongoing notifications of litigations, etc., FIRM A is happy to provide notification rights covering litigation likely to have a material adverse effect on FIRM A’s ability to provide those services required under the terms of the Agreement, or as otherwise required pursuant to applicable Form ADV amendment requirements.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would “materially change” the Agreement. Whether a proposed change is a “material change” shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror. With regard to paragraph 7(B) of the Sample Agreement, NMPERA believes that the paragraph is clear, unambiguous, and reasonably limited by its own terms to the subject matter of the Agreement.

23. Section 10 – Subcontracting

- a. FIRM A utilizes subcontractors to vote shareholder proxies and perform other back-office services, and to the extent necessary, FIRM A would request PERA’s approval before engaging them to provide services to PERA’s account. Please note that, consistent with the warranties expressed in Part VII, Section H of the RFP and Section 5 of the Form Contract, FIRM A will not delegate its fiduciary responsibilities assumed pursuant to the Agreement to any of these service providers.

Answer: NMPERA responds to the comment by noting that paragraph 10 of the Sample Agreement does not prohibit subcontracting, and requires written approval by NMPERA in advance.

24. Section 11 – Records and Audit

- a. *FIRM A requests that any audit rights under this section be (i) reasonably related to PERA’s account records and (ii) limited to inspections carried out at reasonable times during FIRM A’s business hours,*

following reasonable prior notice to FIRM A. Any such inspection shall be subject to FIRM A's right to safeguard any proprietary and confidential information.

Answer: NMPERA responds to the comment by noting that paragraph 11 of the Sample Agreement is reasonably limited to the subject matter of the Agreement.

25. Section 13 – Confidentiality

- a. FIRM A requests to slightly modify the “Confidential Information” definition to ensure that both FIRM A and PERA’s proprietary information remain subject to substantially similar protections.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would “materially change” the Agreement. Whether a proposed change is a “material change” shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror.

26. Section 14 – Product of Services and Copyright

- a. FIRM A would like to clarify that the carve-out relating to FIRM A’s independently developed proprietary materials will apply to the entirety of Section 14, such that FIRM A remains entitled to claim ownership of all FIRM A proprietary information, methods or materials independently developed by FIRM A.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would “materially change” the Agreement. Whether a proposed change is a “material change” shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror. PERA recognizes that revision of paragraph 14 of the Sample Agreement to address the Offeror’s interest in the proprietary nature of deliverables provided under the terms of the Sample Agreement likely would not qualify as a “material change” the Sample Agreement.

27. Section 15 – Conflict of Interest and Acting for Other Accounts

- a. Though FIRM A does not anticipate any material difficulties in complying with terms of this section, if awarded the mandate, FIRM A reserves the right to retain local New Mexico counsel to better understand the obligations and restrictions described in the statutes cited in Section 15.
- b. FIRM A would like to further discuss any restrictions on transacting with firms providing investment management services to PERA, as we do not have transparency into the identities of PERA’s investment management or financial services providers.

Answer: NMPERA recognizes that paragraph 15 of the Sample Agreement is confusing and agrees to strike it from any Agreement executed under the terms of the RFP.

28. Section 16 – Gratuities and Campaign Contributions

- a. Though FIRM A does not anticipate any material difficulties in complying with terms of this section, if awarded the mandate, FIRM A reserves the right to retain local New Mexico counsel to better understand the obligations and restrictions described in the statutes cited in Section 16.

Answer: NMPERA encourages potential Offerors to obtain advice of local counsel as they may deem necessary.

29. Section 23 – Miscellaneous

- a. Section 23(A) – Custody. FIRM A has standard custody provisions and power of attorney language, permitting FIRM A to establish trading accounts and sign the related account-opening documentation on PERA’s behalf, which have been vetted and approved by a number of FIRM A’s regular counterparties. We would propose including FIRM A’s standard language in the Agreement, subject to PERA’s review, for ease and efficiency in setting up PERA’s trading accounts.

Answer: In the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would “materially change” the Agreement. Whether a proposed change is a “material change” shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror. With regard to paragraph 23 of the Sample Agreement, NMPERA recognizes that reasonable changes to this provision to meet the mutual needs of the contracting parties are unlikely to constitute a “material change” as explained in this response.

- b. Section 23(B) – Proxy Voting. Given that FIRM A generally outsources its proxy voting obligations to a third party provider and does not invest with a view to actively intervene in management, we do not typically vote proxies in accordance with any specific requirements of a client’s proxy voting policy. To the extent PERA’s policy requires FIRM A to vote in a specified manner, FIRM A would like to further discuss and understand these requirements.

Answer: This can be discussed further at the appropriate time.

30. General Comments (from FIRM A)

- a. In order for FIRM A to trade for the account in compliance with applicable federal securities laws and regulations, FIRM A will need PERA to make certain additional representations and warranties.
- b. FIRM A would request to add certain provisions standard in FIRM A investment management agreements to address issues that arise in the normal course of dealings, such as passive deviations from the investment guidelines, procedures for providing electronic delivery of FIRM A’s Form ADV, and non-exclusivity representations.
- c. The summary above attempts to highly material issues and is not intended to be an inclusive review of the Form Contract. If awarded the mandate, FIRM A reserves the right to make further substantive and/or ordinary course of business revisions to the Form Contract. FIRM A represents that any such revisions shall be negotiated on a good faith basis.

Answer: In Response to the General Comments of the potential Offeror, in the absence of a request to consider specific changes to the Sample Professional Services Agreement that is attached to the RFP, NMPERA refers the potential Offeror to the second paragraph of Part VII of the RFP which addresses changes to the Sample Agreement that would “materially change” the Agreement. Whether a proposed change is a “material change” shall be determined by NMPERA in its sole discretion. By way of a general response, NMPERA will not consider a proposed change to be “material change” if it is reasonably related to the Scope of Work, or the specific circumstances of the Offeror.