



PERA

Public Employees
Retirement Association
of New Mexico

Dr. Jacquelin Kohlasch, PhD
Chair, State Member
Wayne Propst
Executive Director

P: (505) 476-9300
F: (505) 476-9401
Toll Free:
1(800) 342-3422

INVESTED IN TOMORROW.

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RESPONSE TO WRITTEN QUESTIONS

**REQUEST FOR PROPOSALS FOR:
GENERAL INVESTMENT CONSULTANT SERVICES
RFP NO. NM INV-003-FY20**

General Questions

1. What do you think is the single most important characteristic of an investment consulting firm?
A. Dedication to PERA's mission and members.
2. What is the most important investment issue your Fund is currently facing?
A. Bridging PERA's return gap; 10-year forecasted returns for PERA's Reference Portfolio are expected to be near 5.6% which substantially less than PERA's 7.25% discount rate.
3. What prompted your desire to conduct a search at this time?
A. Contract expiration
4. Do you have any specific issues in regards to your current consultant?
A. No
5. Do you have a separate alternative assets consultant?
A. Yes
6. Do you currently use fund of funds or direct funds for your alternative investments?
A. Yes
7. General Question: Is the PERA plan cash flow negative?
A. Yes
8. What is the funded status of the Fund?
A. 71.6%
9. What are the assumed/target rates of return for the Fund?
A. 7.25%



Overlay Questions

10. It is our understanding that PERA uses a liability-based risk overlay program. What role, if any, does the general consultant play in this program?
11. Scope of Work, Section B, Item 3 on page 5: Please describe the objective of the Total Fund overlay program. Is it used for liquidity/rebalancing or tactical allocation? If the answer is both, what is the primary purpose?
12. How do you define tactical asset allocation implementation for NMPERA in Part II. Scope of Work.B.3? Is this tactical asset allocation implemented by NMPERA staff within current asset allocation rebalancing bands to express over or underweights to beta exposures based upon variables such as relative valuation, carry or momentum when these variables are perceived to be outside of historical norms as a way to add value?
 - A. PERA utilizes two synthetic overlay mandates within its portfolio:
 - i) beta management: cash securitization, liquidity management and strategic asset allocation rebalancing; and
 - ii) total fund overlay: identification and management of Structure Risk (i.e. “Off Benchmark Risk”) and a re-spend of mitigated risk into an optimized tactical asset allocation strategy with a 6-18 month investment horizon from an external provider.

For these strategies PERA’s general consultant will be expected to perform the services associated with manager selection and monitoring, as stated in Part II, Section B, of the published request for proposal.

Risk Questions

13. What is the extent and granularity of risk analytics reporting expected from the general consultant?
14. Scope of Work, Section C, Item 3 on page 6: Can you provide an example of current risk reporting or a list of measures that are most important to PERA?
15. Appendix C Questionnaire, Performance Measurement Question 7, page 6: Please describe your preferred risk framework and include an example of the current output if possible.
16. RISK: Would NMPERA entertain risk advisory services in addition to general consulting services? Risk advisory services would involve assistance in the development of a risk policy, detailed risk reporting and other related customized risk analysis.
17. RISK: Is NMPERA interested in receiving holdings-based risk reporting which delineate the contribution to risk from varying factor exposures? Is NMPERA interested in receiving risk dashboards? If the answer is ‘yes’ to either of these, what is the frequency with which NMPERA would like to receive such reports?

- A. PERA anticipates the following levels of risk reporting and management, in any base proposal. Additional risk advisory service proposals will be considered separately, but is not a requirement for general investment consultant services.
- i) Asset allocation and risk budgeting: development and monitoring of annual risk budget, requiring current capital market assumptions and ex-ante risk modeling of the policy portfolio and active risk budget;
 - ii) Fund reporting and ongoing monitoring: ex-post monthly and quarterly risk reporting, including standard deviation, tracking error, r-squared, historical alpha, information ratio, Sharpe ratio, and Treynor ratio; presented at the total fund, asset class, and sub-asset class levels; and
 - iii) Manager selection and monitoring: ad-hoc factor based risk analytics on long-only liquid managers, in order to decompose manager performance and identify idiosyncratic results.
 - iv) Current State Internal Analytical Tools: PERA currently has numerous returns-based and holdings-based analytical tools through multiple providers that span analytics for total plan ex ante and ex post analysis via a monte carlo VaR based approach, factor and idiosyncratic decomposition for manager selection, and cash flow and holdings based analysis for private asset idiosyncratic risk. Also, PERA is currently undergoing an evaluation from a third-party of its workflow, data sources, and analytical tools. This evaluation will provide a clearer view of the current state of the above in order to better inform an enhanced future state.

Fee Questions

18. What are the annual fees for the existing contract that the Board is paying to its current consultant? Are there project-related fees associated with the current arrangement that are not part of the base fee?
19. What is the fee currently being paid to the NMPERA general consultant? Does the current consultant provide all of the scope of work items articulated in Part II. Scope of Work of the RFP?
- A. PERA currently pays \$745,000 annually, for all services listed in Part II of the published RFP. This fee arrangement is a flat base fee, and PERA does not incur any project-related fees outside of this amount.

Scheduling/Attendance Questions

20. Scope of Work, Section D, Items 1-3 on page 6: Can you please provide the expected dates of the quarterly Investment Committee Meetings? Do these meetings overlap with the monthly Board meetings?
- A. The PERA Investment Committee meets 5 times per year: January, February, May, August, and November. Investment Committee typically occurs before Board Meetings, on the last Thursday of designated month.
21. Does participation in monthly PRISM meetings with staff require attendance in person or are these held via conference call?
- A. PERA PRISM meetings occur monthly and are scheduled based on availability and work-related deadlines. Consultant attendance via teleconference is acceptable. However, staff reserve the right to request physical attendance, based on the magnitude of the work being presented.
22. Minimum Qualifications, Item 4 on page 7: Please clarify how many days the Annual Board Retreat typically spans.
- A. The Board retreat typically occurs annually, in the month of July. This event typically spans 2-3 business days, with a regularly scheduled monthly Board meeting on the last day.

Asset Allocation Questions

23. When was the last time the Fund performed a liability-based asset allocation study?
- A. PERA performed a liability based asset allocation study in 2017.
24. Do you anticipate making any changes to the asset allocation of the Fund? Are you considering any new asset classes?
- A. PERA does not anticipate any immediate changes to its strategic asset allocation. However, given the return gap, PERA views asset allocation as a more dynamic exercise where an essential bridge must include non-traditional methods to improve the risk/return tradeoff without overly concentrating risk in one asset or risk factor.

Manager Selection Questions

25. In Part II. Scope of Work.B.4, can you further articulate the level and depth of activities you expect the general consultant to undertake for operational due diligence on behalf of NMPERA? If the ODD is to occur on strategies where the assets are held outside the NMPERA's master trust (i.e., at a prime broker or the manager), would NMPERA be amenable to the consultant's subcontracting of ODD to a third party specialist?
- A. PERA would expect the selected consultant to perform a review of applicable documents, conduct a site visit, and prepare and provide a detailed operational due diligence report for PERA staff. PERA would require that operational due diligence coverage address the following 4 areas:

Compliance and Legal, Finance and Accounting, Infrastructure, Service Providers.

Within these 4 areas, the following items should be reviewed:

- Cash Controls
- Trading Platform, process and safe guards
- Manager Organization
- Regulatory and Media Checks
- Compliance Resources and Policy
- Investment Operations
- Infrastructure
- Fund Terms and Governance
- Custody and Counter Parties
- Valuation Process
- Review of Financial Statements

PERA has no objection to subcontracting these services, as long as the areas listed above are properly covered. Also, PERA requires that knowledgeable individuals are able to field any related follow up questions PERA may have in regard to the ODD process and reporting provided.

26. Scope of Work, Section B, Item 1 on page 5: The item references the 5-Stage Liquid Manager Selection Process. Can you provide detail on this process?

A. The PERA Board of Trustees has delegated investment authority to the Chief Investment Officer. In order to propose an opportunity to our Chief Investment Officer, Staff must complete the internally established 5-Stage Manager Selection process:

Stage 1, Request: an RFP or RFI will be issued, and the selection consultant will be tasked with assisting staff in the determination of portfolio need and dissemination of RFP/RFI materials to potential respondents.

Stage 2, Collect: RFP information and other reporting requirements are collected. The selection consultant shall provide universe screening information and quantitative analysis based on the data collected.

Stage 3, Evaluate: Selection consultant and Staff will perform a side by side evaluation of managers with diligence summaries and manager expectation worksheets. Selection consultant provides quantitative analysis based on the universe of managers and portfolio expectations.

Stage 4, Visit: Staff and selection consultant will coordinate a collective onsite visit to the potential manager(s) that have been identified as finalists.

Stage 5, Propose: Staff and selection consultant provide independent proposals to the Chief Investment Officer for consideration. Selection consultants are responsible for investment due diligence and operational due diligence deliverables. Portfolio

construction and optimization is also presented at this stage, proposing appropriate sizing and risk budgeting considerations.

Other Questions

27. Can you clarify what you mean by “risk management strategies” in item Part II. Scope of Work.B.2? Do you mean downside protection or portfolio insurance-type strategies or approaches to managing risk based upon current portfolio exposures (i.e., neutralizing undesired systematic exposures) or both?
- A. PERA views its overlay strategies and risk reduction and mitigation asset class as risk management strategies, and would expect ongoing monitoring and enhancements to these areas of the portfolio. Generally speaking, both strategies provide avenues for further risk diversification away from the equity risk premium, improve liquidity, or help mitigate uncompensated risk via benchmark misfit. At the highest level, the inclusion of the strategies improve Sharpe ratio and improve drawdown profiles by allowing the portfolio to be more risk balanced via a macro factor and environmental lens.
28. Scope of Work, Section A, Item 8 on page 5: What analytical software and tools does PERA currently use? Are you looking to make a change or are you happy with the current software package?
- A. PERA currently has numerous returns-based and holdings-based analytical tools through multiple providers that span analytics for total plan ex ante and ex post analysis via a monte carlo VaR based approach, factor and idiosyncratic decomposition for manager selection, and cash flow and holdings based analysis for private asset idiosyncratic risk. Also, PERA is currently undergoing an evaluation from a third-party of its workflow, data sources, and analytical tools. This evaluation will provide a clearer view of the current state of the above in order to better inform an enhanced future state.
29. Scope of Work, Section C, Item 7 on page 6: Can you provide example industry specific surveys or data points that are required from the consultant to assist in collection and preparation of information for these surveys?
- A. Surveys vary, but typically encompass historical return and risk information requests. Some examples of surveys include: CEM and PFDE.