LACERA Responses to
Hedge Funds Emerging Manager Program Separate Account Manager
RFP Questions

January 24, 2020

1. We are seeking clarification on one of the Minimum Qualifications for respondents to the referenced RFP. Qualification #3 RFP states: "The organization must have at least three institutional emerging manager program clients, at least two of which being public pension funds, and at least one of which having a plan size of at least $10 billion." Unlike other stated qualifications, this one is not specifically limited to *hedge fund* emerging manager programs or mandates. Therefore, can a firm qualify for this mandate if it meets the requirement with its firm-wide assets (i.e., not limited solely to hedge fund assets)? Alternatively, if the requirement is intended to be limited to hedge fund programs, is there any flexibility to allow a firm to respond if it meets part, but not all of the requirement?
   LACERA's Response: The search overall and each minimum qualification relates to a program of emerging hedge fund firms. All components of each minimum qualification must be met in order for a firm to meet the requirements. The organization must have at least three institutional emerging manager program clients with a portfolio that specifically includes hedge funds. Regarding the institutional emerging hedge fund manager program clients, at least two must be a public pension fund and at least one of the public pension funds must have a total pension plan size of at least $10 billion.

2. Is there any leeway on the minimum requirements?
3. For criterial #3 below on the Minimum Qualifications Certification, we [do not] meet all the requirements and so would ask if that would automatically disqualify us?
   LACERA's Response: We welcome the opportunity to get to know firms through this open process. We encourage qualified firms to respond. Each of the minimum qualification must be met – there is no partial compliance.

4. Regarding question # 82 (Does the firm maintain an Operations Manual? Explain, and if so, provide as an attachment.) Are you asking for an Operations Manual that spells out what the operations and accounting teams to do to support a business or a Compliance Manual that spells out what a registered investment adviser does to comply with the Advisers Act?
   LACERA's Response: We are asking about an operations manual that describes investment operational activity including mid and back office functions.

5. Please provide LACERA's preliminary investment objectives/guidelines for the mandate (i.e. liquidity, beta, volatility, manager concentration, return expectations).
   LACERA's Response: Objectives and guidelines for LACERA's hedge funds program and underlying portfolios include the following:
   - Desired risk and return profile: frequently positive, low correlation to major markets, moderate returns, low to moderate volatility, provide downside protection to LACERA's total Fund, and alternative return sources
   - Return objective: cash plus 2.5% per year
   - Risk target: 3-7% standard deviation
   - Market sensitivity: neutral to very low equity beta objective in the long run

- Liquidity: Greater than 50% of capital available within 3 years; 100% of capital available within 5 years
- Manager count: 0-6 for the emerging manager portfolio

6. What is the estimated size of this mandate at launch?
   LACERA's Response: $0 at launch with a goal to deploy $200 million within 24 months.

7. Will all assets need to be fully invested on day 1, or is LACERA comfortable with callable capital structure once HF managers have been identified?
   LACERA's Response: Not all assets would need to be invested on day 1. We are comfortable deploying capital in stages.

8. Will the selected provider have full discretion on the portfolio?
   LACERA's Response: We expect for LACERA to have a consent or veto option to consider LACERA-specific matters such as portfolio fit across LACERA's total Fund.

9. What is Albourne's role in evaluating potential partners for this mandate?
   LACERA's Response: Albourne is an investment consultant and back office service provider to LACERA regarding the hedge funds asset category with duties further described in the investment policy statement.

10. Will Albourne need to approve future HF allocations within the program?
    LACERA's Response: No.

11. Do LACERA's existing HF program exposures need to be considered when determining allocations within the mandate? Or will it be managed on a standalone basis?
    LACERA's Response: We expect that LACERA's portfolio objectives will be considered. While we do not believe any portfolio should be managed on a standalone basis, we do not expect that LACERA's broader hedge fund program exposures will need to be considered.

12. What happens when a HF manager eventually exceeds the stated criteria of: <$1bn in AUM, <3 years in life, principals' ownership stake ≥66%?
    LACERA's Response: This topic will be further discussed and a policy established in the future. The treatment may differ for separate eligibility criteria. Potentially, this topic will be addressed as follows. If a hedge fund manager meets LACERA's criteria classifying it as an emerging manager, the manager should be eligible for the emerging manager program for a minimum period. We expect this minimum period to be three years, but the period length may be amended. When the minimum period has expired, a manager who no longer meets the eligibility criteria will be redeemed from or transferred out of the emerging manager program.

13. Will LACERA be using this mandate to identify managers that may eventually move into the direct HF program?
    LACERA's Response: Potentially, yes. If a hedge fund manager delivers strong risk-adjusted performance, grows to be ineligible for the emerging manager program and the minimum period discussed in the answer to question #12 has expired, a manager may "graduate" to LACERA's broad hedge fund portfolio. Upon graduation, unused existing capacity should be preserved by LACERA.

14. Is LACERA comfortable with a mandate that includes seeding/acceleration opportunities, where LACERA would also participate in GP Economics?
    LACERA's Response: Yes, we expect this mandate to selectively include preferred investor economics related to providing seed or growth capital to smaller and younger firms (emerging managers).

15. The RFP states desire for a separate account mandate. Please confirm whether you're referring to a separate account at the LACERA level, or at each underlying manager level, or both.
16. Can you please provide insight on LACERA's preference for a separate account structure and what features of a separate account are important to LACERA? Is LACERA considering other structures as well (e.g., fund of one)?
    LACERA's Response: We expect underlying hedge fund investments to be made in LACERA's name. A separate account structure with a separate account investment manager allows the portfolio to be built according to LACERA's objectives and constraints. Additionally, the separate account structure includes LACERA being the investor of record and improved transferability of underlying hedge fund investments. We will consider a number of structure alternatives.

17. Will the Emerging Managers mandate have the same risk/return and liquidity guidelines as the rest of the Diversified Hedge Fund Portfolio or, alternatively, will there be a set of guidelines tailored specifically to the new program?
    LACERA's Response: The emerging manager program and related portfolio will have the same primary objectives and constraints as the overall hedge funds program. The answer to question #5 provides additional information. Select areas such as manager count and typical investment size may differ between the portfolios.

18. Does LACERA have a preference for the type of fund structure for the underlying hedge funds? If so, please provide your views on preferred structures and the desired features.
    LACERA's Response: We expect to be the named investor in any underlying hedge fund and the structure should limit liability. We highly value transparency, cost control, mandate customizability, and liquidity and expect to consider numerous account structure alternatives.

19. Can you provide direction on LACERA's fee expectations and preferences for this mandate, particularly as it relates to structure (e.g., flat fee or management/performance fee)?
    LACERA's Response: We prefer fee structures that align interests and reward outcomes. We expect to consider numerous fee structure alternatives.

20. How should we consider new strategy launches, for those of which the manager's total firm AUM is >$1bn? Our view is that new strategies are considered emerging, despite the manager running >$1bn in other strategies.
    LACERA's Response: We do not expect that newly-launched strategies at non-emerging firms will be eligible for our emerging manager program.

21. Specific to the $1bn size constraint, should this be applied as of day 1 launch or any point in time? For example, what if the manager was <$1bn at launch, but then grows >$1bn over time within the first three years?
    LACERA's Response: Testing a manager's initial eligibility for LACERA's emerging manager program should occur at the time of investment. The answer to question #12 addresses this topic.

22. As of what time period should we consider the proposed LACERA portfolio composition? Should we assume manager eligibility as of 2019?
LACERA's Response: If the question is asking about the request to receive a description of the composition of a proposed portfolio, the answer can be forward-looking and address a portfolio you would strive to build.

23. If we have a different house view as to the definition of emerging managers, should we include a respective composite in response to performance questions 89, and 90? This would be in addition to the composite supplied based on LACERA's definition.
LACERA's Response: Yes. Please describe how emerging managers were defined regarding additional composite returns provided.

24. Are there any hedge fund strategies, sectors, asset classes, or investment techniques that would be prohibited under the Hedge Funds Emerging Manager Program?
LACERA's Response: Hedge fund strategy and related categories are not standardized to a point where we will have a prohibited list. We expect that LACERA will have a consent option that will be used to consider portfolio fit.

25. We would like to know for question 83 below if fund names must be provided or if it is satisfactory to provide a descriptor which delineates one fund from another, but does not disclose the exact name of the fund. (Question 83 - *Provide a spreadsheet attachment containing a schedule of all current hedge fund investments (fund name, strategy description, amount invested, and terms for fees, liquidity, and capacity) for all emerging manager hedge funds that the firm currently invests in through discretionary mandates.)*
LACERA's Response: A responding firm is not required to provide fund names. If fund names are provided, they may be identified as confidential and redacted as mentioned on page five of the RFP document. Responding firms who provide a more detailed answer to this question may be scored relatively higher than firms who provide less detailed information. Broadly and not just related to RFP question #83, all responding firms should provide a redacted version of their response.

26. Does the 40-page limit include the cover page and the table of contents of the Questionnaire?
LACERA's Response: Yes.

27. For the following questions, do you accept answers with charts or tables that are attached separately and not contributing to the 40-page limit? 15 a); 36; 39; 40; 41; 64; 78 b); 81
LACERA's Response: Yes, we will allow these questions to be answered via attachment. Please do not answer any other questions via attachment unless the question provides this option.

28. Question 39: Does the requested information relate to employees of the Separate Account Manager candidate or to external investment managers selected by the candidate?
LACERA's Response: This question relates to a candidate firm's internal employees, who may have the title of Portfolio Manager.

29. Checklist (page E-3): can you please confirm the requested checklist components, in particular the template agreement for DMA platform services?
LACERA's Response: In the checklist on page E-3, Exhibit 3 should be named "Firm's template agreement for separate account manager services."