**ATTACHMENT E**

**PASSIVE CASH OVERLAY INVESTMENT MANAGER SEARCH**

**PROPOSAL QUESTIONNAIRE**

# 

# **PRIMARY CONTACT INFORMATION**

Firm Name:

Main Address:

Primary Contact(s) at Firm for this RFP

Name:

Title:

Phone Number:

E-Mail Address:

# **CHECKLIST**

Please confirm that the RFP Package has been reviewed in full.

Attachment A Intent to Respond

Attachment B Total Fund Strategic Asset Allocation & Benchmarks

Attachment C OPEB Trust Strategic Asset Allocation & Benchmarks

Attachment D Minimum Qualification Certification

Attachment E Proposal Questionnaire

Attachment F LACERA IT Security Vendor Questionnaire

Attachment G Investment Management Agreement Template

Attachment H Diversity, Equity & Inclusion (DEI) Questionnaire *[via DiligenceVault]*

Attachment I DEI Attributes Template *[via DiligenceVault]*

Attachment J Environmental, Social, and Governance (ESG) Questionnaire *[via DiligenceVault]*

Provide the following Exhibits. If your firm will not provide a requested item, explain why.

Exhibit A Audited Financial Reports and Auditor's Management Letter

Exhibit B ADV's 1, 2a and 2b

Exhibit C SOC-1 (SSAE 16), SAS 70, or appropriate Internal Control examination

Exhibit D SOC-2 Report

Exhibit E Code of Ethics

Exhibit F Trading Policy

Exhibit G Compliance Policies and Procedures

Exhibit H Proposed Team Biographies

Exhibit I Certificates of Insurance

Exhibit J Sample monthly reporting package

# **ORGANIZATION**

Background

1. Describe the ownership structure (e.g. LLC, LP, publicly-traded, wholly-owned subsidiary). Indicate all entities that have an ownership stake in the firm (name and percentage). List any affiliated companies or joint ventures and how they fit in the structure.
2. Provide an organizational chart that diagrams the different business lines, organizational/ reporting functions (portfolio management, research, service development, operations, trading, etc.). Executives should be identified over their areas of responsibility.
3. Provide a brief history of your firm including: a) the year organized; b) the year the firm began managing cash overlay services. Cover any material developments (changes in ownership, personnel, business, etc.) over the past ten years ending December 2024, in detail. Include any planned or anticipated material developments known at this time.

Business and Operations

1. Will your firm act as a fiduciary (as the team is defined by Employee Retirement Income Security Act of 1974) to LACERA with respect to the services sought in this RFP? Please explain if your firm will not act as a fiduciary.
2. Describe in detail any potential conflicts of interest your firm may have in providing the services sought by LACERA. Include any activities of affiliated or parent organizations, brokerage activities, or any past or current relationships with Board members and staff. Include any other pertinent activities, actions, or relationships not specifically outlined in this question.
3. By which organizations is your firm regulated (e.g. SEC, FCA, FINRA, etc.)? When was the last time your firm underwent an audit by a regulatory body? Which regulator performed the audit and on what dates did the audit occur? What were the findings from the audit and how have you addressed them?
4. For the past ten years ending December 2024, has your organization or any of its affiliates or parent, or any officer or principal been involved in any business litigation, investigations, regulatory or legal proceedings, including involving the SEC? If so, provide a detailed explanation and indicate the current status.
5. Does your firm undergo an annual financial audit? If so, who is the auditor? How often are your financial statements audited by a third party? When was the last audit? Has your firm changed auditors over the last three years? Please elaborate on any findings from your auditors in the last three years.
6. Does your firm own or have an affiliation with a broker/dealer? If yes, describe the relationship between the firm and its broker/dealer and whether the firm would utilize the services of the broker/dealer for this mandate. Are you affiliated with an investment bank, insurance company, or other lines of business that are not asset management related, but could present conflicts? If yes, briefly describe.
7. Do you have a compliance manual for your employees? How often are employees trained on firm-wide compliance? Do employees certify that they will follow the compliance manual? Are employees permitted to accept gifts from counter parties that the firm conducts business with? Please describe any gift policy your firm has in place.
8. Do you have a code of ethics for employees? Do employees have to receive approval/clearance for personal transactions from your compliance department?
9. Do you have a disaster and recovery plan in place? Describe your emergency and disaster recovery plans.

Clients and Assets Under Management

1. Provide firm AUM and specify the as-of date. Also provide the level of peak and trough AUM and the companying dates.
2. Provide the historical breakdown of AUM.

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| --- | --- | --- | --- | --- | --- |
|  | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Total AUM (firm-wide, all products) |  |  |  |  |  |
| Total AUM in Overlay Products |  |  |  |  |  |
| Total AUM in Passive Overlay Products |  |  |  |  |  |
| Total Number of Passive Overlay Clients |  |  |  |  |  |
| Total AUM in Active Overlay Products |  |  |  |  |  |
| Total Number of Active Overlay Clients |  |  |  |  |  |

1. What is the composition of Firm AUM by investor type (FoF, HNW, institutions, etc.)? How has the composition changed over time, and what changes do you anticipate in the future?
2. What percentage of AUM does the largest client represent? The five largest clients? The ten largest?
3. How many accounts representing 10% of the assets or more were lost in each of the last five (5) years? What was the reason(s) for each account lost?

# **PROFESSIONAL STAFF**

Investment Team

1. Provide the number of employees. Indicate total firm employees, investment professionals, back office staff, and others.
2. Does your firm conduct background checks on employees during the hiring process and periodic checks while employed? If so, explain the process and the sources used to conduct the background check.
3. Provide a list of key personnel and the proposed team that will have direct responsibility for this mandate. Please provide biographies, no longer than ½ page, on each of the persons listed below. Include in Exhibit H.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name** | **Title** | **Location** | **Years of**  **Experience** | **Year**  **Joined Firm** | **Education / Other Designations** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

1. Indicate how long the proposed LACERA team has worked together as a team.
2. Describe your compensation system for investment professionals with respect to base salary, performance bonus, and equity or equity-like incentives or other long-term retention programs.
3. Personnel turnover. Discuss the causes and impact of each instance of departure, hiring, and/or promotion within the executive ranks in the past five years.
4. Describe the level of ongoing support LACERA would receive if selected (e.g., frequency of contact, training, support, etc.). Describe the standard training program that your firm offers and any periodic educational sessions, user conferences, and/or publications that you provide to clients.
5. Does your firm outsource any investment or operational functions? If so, please provide an overview of what function(s) is outsourced, including if outsourced personnel are part of your firm or contracted?

# **INVESTMENT PHILOSOPHY AND PROCESS**

1. Make the case for adopting a cash overlay (for passive and/or active).
2. Describe how your approach to this product differentiates your philosophy and process from your competitors. What are specific differentiating characteristics?
3. In what market environments do you think your strategy performs the best/worst? Please give examples and describe the impact of volatility, market trends, liquidity, and correlations on the strategy.
4. Investment Process Flow Chart. Illustrate the investment process in a flow chart identifying the decision-making steps, decision makers and outcomes.
5. Describe your investment process, including all aspects of portfolio construction. List any software used to construct the portfolio (e.g., optimizers, etc.)
6. What is your firm's trading philosophy and capabilities related to the service?
7. If the strategy is rules-based, please detail the specific factors used in the strategy.
8. Describe your research capabilities for the service. What are the internal and external sources of information used for research? What percentage of the research effort is conducted internally?
9. If adopting a cash overlay program (for passive and/or active) for a public equity portfolio, please outline your philosophy and process for this type of portfolio.
10. Please describe any other passive overlay/hedging approaches you manage (i.e., country, currency, market capitalization, etc.). What is your approach to formulating these strategies and developing implementation/operating guidelines?

# **TRADING, OPERATIONS, RISK MANAGEMENT, AND PERFORMANCE**

Trading

1. Provide a process flow diagram between the portfolio management group entering trade order to final implementation in client portfolios.
2. What financial instruments do you anticipate using for these services? Please explain your rationale for choice of instruments.
3. If you use exchange-traded instruments, please indicate how you select futures execution and clearing agents. Can LACERA suggest counterparties that they would prefer for these mandates? If you anticipate using Over-The-Counter (OTC) or other instruments which embed credit risk, please describe your counter-party selection, review, and monitoring process.
4. Provide a description of your trading platform, including systems (proprietary and off-the-shelf) for execution and processing.
5. What trading functions are automated? What process do you have in place for human verification? Who signs off on final trading?
6. What processes do you have in place for ensuring pre- and post-trade guideline compliance?
7. Describe how you measure trading costs (commissions and market impact). How do these costs compare with those of your peers who run a similar approach? How do you attempt to minimize these trading costs?
8. Describe the oversight procedures that would minimize the risk of traders acting outside of their given latitude in executing trades.
9. Have there been any material trading errors in the past 2 years? If so, please describe the trading error, quantify the P&L impact and cost, indicate which entity bore the cost and outline the steps taken to ensure that the error could not re-occur.
10. If you have soft dollar relationships with broker-dealers, please disclose the following: the percentage of commissions tied to soft dollar relationship and a list of resources funded by soft dollars that would normally be funded with hard dollars.
11. The global equity asset class as noted in Attachment B states the policy benchmark as the MSCI ACWI IMI Index. If you were asked to implement an overlay program for that asset class, which instruments would you recommend?

Operations

1. Provide an organization chart of your firm's back-office division, including general compliance, information technology, client service/ portfolio accounting, and marketing.
2. What portfolio accounting systems do you use?
3. What portfolio data can the manager provide investors and with what transparency?
4. What pricing service do you employ for valuation? When you find pricing differences with the custodian, what is your procedure for reconciliation?
5. Provide a detailed implementation project plan with steps, tasks, timelines, hours, milestones, deliverables, and timing of anticipated resources.
6. Describe the client's role and responsibilities during implementation.
7. Are there any conversion risks associated with the implementation?
8. Once data conversion is complete, how is the data and any corresponding outputs reconciled? Describe your quality control process for checking data for accuracy prior to releasing it to clients.
9. Describe your past experience with custodians, plan accounting providers, prime brokers, and third-party administrators in setting up and maintaining data feeds.
10. Describe your firm's experience working with State Street Bank, LACERA's custodial bank, on behalf of your clients.
11. How would you support LACERA in an exit strategy should we wish to convert portfolios off your platform? In what format would you provide that information to LACERA?

Risk Management

1. Provide a diagram showing the source and flow of information used in the risk management of the programs. Please name the systems and IT tools used in the current risk management processes, clearly indicating whether they have been developed in-house or by a third party.
2. Discuss the risks involved in your strategy, and how you plan to manage these risks. Reference any specific risk control factors.
3. How do you ensure that risk parameters are in line with benchmark returns and within client guidelines? What compliance systems/tools are used?
4. Describe how you evaluate and monitor liquidity risk, specifically commenting on how you would handle an “illiquidity event.” How quickly could LACERA normally withdraw assets? How would this liquidation period be impacted in case of an “illiquidity event?”
5. What measures are taken to control tracking error? Are possible tracking error impacts considered when trading, if so, how?
6. How do you approach the potential tradeoff between tracking error and trading costs to track a relevant exposure?
7. How much leverage does your approach include and are there limits to the amount of leverage that can be used?
8. What are your policies for managing counterparty risk? Be sure to address diversification of counterparty risk and credit requirements of counterparties.
9. Does your firm have a dedicated Investment Risk Officer and/or team. Discuss if the Officer/team is independent or part of the investment team responsible for the service.

Performance

1. Describe the performance systems used and specify what systems are proprietary.
2. Describe the level to which your firm can calculate performance. Down to the security level?
3. Describe in detail your performance calculation methodology.
4. Describe how you reconcile performance. How will discrepancies between your firm and the client's custodian be investigated and resolved? Describe your process of restating portfolio returns.
5. Discuss the types of reporting analytics you can provide to your clients.
6. Describe the types and levels of attribution you can provide. How granular is your attribution? What is the calculation methodology used?
7. Do you provide universe/peer comparison metrics?
8. Do you provide portfolio characteristics, style analysis, and ex-post risk statistics?
9. Describe what is included in a client reporting package. How many business days after month end are monthly reports available? Please provide a sample monthly reporting package and attach it as Exhibit J.
10. Describe your process for accommodating ad-hoc requests from investors. Please give specific examples of ad-hoc requests and your responses. What is the turnaround time and do clients have access to data?
11. Is there an online portal where clients can access fund documents (monthly statements, performance reports, estimates, etc.)?

# **FEE PROPOSAL**

Terms and Conditions

1. What are the fee terms for this service?
2. Please provide your standard fee schedule for this product? For each, indicate minimum asset size or fee requirements and any other differentiating factors.
3. Are there any side letters or flexibility in regards to terms? If so, please provide a general description of each.
4. Please detail any additional fees in bps terms (administration, legal, audit, miscellaneous, etc.).
5. Please provide fee proposals under the following conditions:
   * 1. Total Fund mandate only
     2. OPEB Trust mandate only
     3. Combined mandate
     4. Other passive overlay/hedging strategies

# **REFERENCES**

Provide at least three (3) current client references most comparable to LACERA who have engaged your firm for passive cash overlay investment management services.

* Client name, title, phone number, and email address
* Nature and length of relationship
* Description of services provided