

# OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

## Question and Answer Document

### U.S. Small Capitalization Value Investment Manager Services RFP #515-11-061

*Question: Will you consider SMID cap products for the small-cap value search you are conducting?*

Answer: No, we are seeking a small cap value product.

*Question: Regarding Section IV. CRITERIA AND QUALIFICATIONS OF THE INVESTMENT MANAGEMENT FIRM, our firm has been managing value equity portfolios for 30 years. We launched our Small Cap Value product in 2006 but do not yet have \$200 million in the product. However, we have been managing small cap stocks as part of our All Cap Value product, which has approximately \$2 billion in assets, of which approximately \$200 million is in Small cap stocks. Would our firm qualify as an eligible manager for this RFP even though we do not have \$200 million directly in our Small Cap Value product? Our firm meets all of the other criteria and qualifications.*

Answer: OPERS does not consider the small cap portion of an all cap portfolio to meet the criteria under Section IV Part A.

*Question: Under Section II, N – “The Vendor must certify that no finder’s fee or finder’s commission has been paid or shall be paid to any individual or organization from the establishment of this investment relationship with OPERS.” How are we to attest to this? Simply by completing and submitting Section I and the RFP?*

Answer: By completing and submitting the proposal, including the Vendor’s Affidavit, the vendor agrees to all terms contained within the RFP.

*Question: Under Section II O. – all Vendor must: How are we to attest to this? Simply by completing and submitting Section I and the RFP?*

Answer: By completing and submitting the proposal, including the Vendor’s Affidavit, the vendor agrees to all terms contained within the RFP.

*Question: May we contact Strategic Investment Solutions at anytime in the search process?*

Answer: OPERS’ consultant, SIS, may not be contacted in any manner related to this particular search. We recognize that vendors have a relationship with the consultant and do not oppose contact by the vendors that does not pertain to OPERS’ search activity.

*Question: What is OPERS affiliation with “The Uniform Retirement System for Justices and Judges (URSJJ)?” For example, with respect to rebalancing and asset allocation, should said small cap value manager win the account will there be a singular separately managed account for OPERS & URSJJ combined or will there be 2 separately managed accounts: 1 for OPERS and 1 for URSJJ?*

Answer: OPERS and URSJJ are separate qualified governmental retirement plans under the Internal Revenue Code, but both entities are governed by the same Board of Trustees. The prospective account is for the OPERS plan only. Therefore, there will be only one account.

*Question: Under the Minimum Requirements for this search, it reads that senior investment professionals in charge of the proposed active U.S. small cap value equity product must have at least ten years of institutional experience within the small cap value space. Can you please clarify if this is combined average experience for the senior professionals or if the ten years must be for each senior investment professional (sic)?*

Answer: This criterion is intended to result in senior professionals that are seasoned with respect to the prospective mandate. All senior professionals (i.e. those with discretion for the account) must individually have a minimum of ten years of institutional investment experience in the US small cap market.

*Question: ...Can you please clarify "institutional experience in the small cap value space"? One of our portfolio managers has over 21 years of equity experience but he specifically began managing small cap value assets 2 years ago. Does this disqualify us as not meeting the minimum requirements?*

Answer: See above. OPERS prefers a seasoned professional with extensive experience in the specified asset class.

*Question: For the following question (#8), shall I include professionals that manage just small cap value equity? We have the [Manager Name] Growth Team that also manages small cap growth strategies, shall I include that investment team as well?*

Answer: OPERS is primarily interested in the team/resources dedicated to the small cap value equity product. You may also include a similar chart combining the small cap value and growth teams if you wish. Please be specific in your description if other information is included.

*Question: For question(#2) below, for the Total Firm US equity, do you want only small cap assets (value and growth) included even if [Manager Name] Investments manages assets outside of the small cap asset class? Shall I include a line for the small cap total and fill this line with total firm assets?*

Answer: The table specifically asks for assets for the firm's total US equity and small cap value business lines. Total US equity should include all US equity assets managed regardless of style.

*Question: "If an investment team met the criteria for assets under management and track record at a previous manager as of June 30, 2010 and subsequently left that firm to start a new firm with no assets but continuity of track record, would this firm be considered to have met the required search criteria?"*

Answer: Exceptions to the criteria from Section IV part A will not be made.

*Question: Question 10 in Section A of the Questionnaire asks the following: "What is the current and expected account load of your portfolio managers and how are accounts assigned to each portfolio manager at your firm." We would like to request clarity on what is meant by account load and whether it relates to capacity.*

Answer: Account load refers to the total number of separate accounts and commingled funds, and the total asset value of all accounts managed by each portfolio manager. This question does not specifically target total product capacity.

*Question: Should we provide portfolio characteristics vs. the benchmark for the last 5 year ends, or does the Board prefer attribution reports? Could you please let us know specifically what information to provide here?*

Answer: OPERS is asking for benchmark-relative factor exposure and portfolio characteristics for at least the previous four annual periods ending June 30, 2010. The factor exposures may be from Barra or a comparable system, measuring factors like growth, value, cap, volatility, leverage etc. relative to the benchmark. The characteristics desired are those similar to "profile" data not covered in question 15 (page 12) of the RFP that would distinguish your portfolio from peers. This should, however, include historical sector and cap deviations relative to the benchmark.

*Question: Question 2 in Section D of the Questionnaire asks the following: "How many brokers were used during calendar year 2009? How many of these were soft dollar relationships? What was your average cost (cents per share) per free commission trade? We are seeking a better understanding on what is meant by the last question, specifically per free commission trade.*

Answer: The free commission trade is intended to mean the trades that were not driven by a soft dollar arrangement but where the manager had full discretion in broker choice.

*Question: On p. 14, Section VIII-F, Question 2, we are asked to specify the proposed vehicle. However, the solution we plan to propose is available in both separate account and commingled (lending/non-lending) structures. Will OPERS consider multiple vehicles structures from one investment manager?*

Answer: Yes.

*Question: Within the “Mandatory Requirements for Submitting a Proposal,” on page 5, you note in O. 4.) that “All Vendors must: Agree to submit reports as requested by the System’s Board or staff in a timely manner, including, on quarterly basis, a Statement of Compliance signed by the portfolio manager and a principal of the firm.” Can you please explain what the State would request to be included in the Statement of Compliance?*

Answer: The statement of compliance is a document whereby the vendor attests that the portfolio is in compliance with the guidelines (or explains why not) for the covered period (quarter). The statement is signed by the portfolio manager and a principal of the firm.

*Question: VII.B.4. – You state active sector positions are based on the GICS classification methodology. In our portfolio construction process, we currently constrain active sector positions based on Barra's definition of sectors, not GICS. Is this acceptable? Could we change the wording of the part of this section (in a side letter) that refers to GICS from, "...as defined by the Global Industry Classification Standard..." to "...as defined by a third party vendor..." if we were selected as the investment manager?*

Answer: Yes. OPERS would also consider amending contract language that reflects the manner in which the assets are managed.

*Question: IX.B. - Proxies. [Manager name] can either vote proxies based on our current methodology (see attached), or OPERS / URSJJ can vote the proxies themselves. [Manager name] does not want to make a determination as to which is the more detailed approach. Which course would OPERS / URSJJ like to pursue if we were selected as the investment manager?*

Answer: OPERS may review the vendor’s proxy voting policies. Per the Investment Policy, investment managers shall vote proxies of shares under their discretion on OPERS behalf.

*Question: Per section VII.A.1. OPERS / URSJJ does not allow the use of futures contracts. Should you choose to invest with us through the use of our commingled fund, the pension plan would have exposure to futures contracts, since the fund makes use of them. Section F of your Investment Policy Statement allows an exception to their securities lending and commission recapture directives. Would you add an exception for futures to this section as well if you choose to invest through the fund?*

Answer: OPERS cannot guarantee that accommodations for the particulars of an investment manager’s product would occur in that part of the IPS, but may be negotiated and addressed in other contractual documentation.

*Question: OPERS prohibits the payment of a finder's fee in any form. The Vendor must certify that no finder's fee or finder's commission has been paid or shall be paid to any individual or organization from the establishment of this investment relationship with OPERS.*

*Our organization is an independent marketing and consulting firm and has been in business for over 17 years. We have a comprehensive, contractual relationship with a handful of institutional investment management firms for whom we serve as the firm's sole business development and client service arm for all clients, allowing the investment professionals to focus on managing the portfolio. We spend our time with the investment management firm meeting investment consultants (like SIS) in the hopes of raising the firm's institutional profile.*

***We are a registered broker-dealer with the SEC and applicable states and a member in good standing of FINRA.*** *We do not have relationships with individuals on the investment committee; we make no political contributions, and we are NOT placement agents hired for the procurement of a certain account or fund. Moreover, clients who hire the investment management firm do not pay ANY additional amount as a result of our involvement. Rather, we are involved in all aspects of the investment management firm's business development and client service and are compensated accordingly by the investment management firm. All consultants and clients understand our role prior to the investment management firm being hired, as we fully disclose verbally and through a written disclosure (in accordance with the requirements set forth in Rule 206(4)-3 under the Investment Advisers Act of 1940), both of which we provide in all cases.*

*My question to you is whether we can be involved in this RFP process and possibly compensated by the investment management firm if we are successful. Again, SIS is well aware of our organization and understands our role simply as an extension the investment management firm.*

Answer: It appears the business arrangements you describe in your question involves at least in part a form of a finder's fee or commission which is not permitted under Section II(N) of the RFP.

### **Fee-Related Questions**

*Question: [Manager Name] is interested in submitting our Extended Small Cap product for the small cap value mandate you currently have out for bid. We have received the RFP, and have a question regarding fees that we are hoping you can clarify. The language below (specifically the bolded text) is taken from your RFP and deals with MFN or "Most Favored Nation" status in the composite. What we are trying to clarify is if it is your intention that this clause be applied to all accounts in the composite regardless of when those accounts funded – or would it be applied only to accounts which fund after OPERS. Typically, MFN language is only tied to accounts that come in afterwards – and is not backward looking.*

*Question: Will OPERS accept modifications to the MFN language in the contract?*

*Question: Would you be willing to replace the current MFN language with something substantially similar to the following: If the Investment Manager, at any time subsequent to the date of this Agreement, enters into an investment management arrangement (a) with a Public entity (b) invested in the same strategy with investment objectives and guidelines comparable to those contained in this agreement (c) with a comparable relationship and with a similar dollar level of assets at a lower fee schedule, excluding clients with fees that are structured to include a performance-based component and clients that have purchased multiple services offered through XYZ Asset Management Group, the Investment Manager shall notify the Trustee of such arrangement.*

*Question: In section VII question I it is our understanding that the Vendor must agree and the contract shall provide that the fee for investment management services will be the same or lower than fee the Vendor charges to other clients of similar funds and accounts prospectively going forward after the agreed upon contract has been signed by both parties. Can you please confirm that we are interpreting this section correctly?*

*Question: “Successful investment management organizations will generally be expected to execute “most favored nation” fee clauses which declare that no other client at or below the size of the OPERS or URSJJ portfolio receives a more favorable fee proposal.”*

*Will we be disqualified if 1) can not apply the “most favored nation” retroactively 2) if applied on a going forward basis, would exempt subadvisory clients from the limitation?*

**Answer:** Section VII (I) of the RFP provides that the vendor must agree and the contract shall provide that the fee is the same or lower than fees the Vendor currently or subsequently charges to other clients of similar funds and accounts. If the vendor is disinclined to quote a fixed asset based fee, the OPERS Board has successfully implemented many investment manager relationships that are on a performance fee basis.