

OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Question and Answer Document

International Growth Equity Investment Management Services #515-13-188

Please note, questions were copied as they appeared in correspondence. However, an attempt to remove names and other identifiers has been made where applicable. As several questions were similar in content, an attempt was also made to group questions by topic.

Mandate

1. *Question: The RFP states you looking for an "active international equity portfolio that emphasizes the growth value of investing" but the IPS breakdown (see page. 21) implies that international growth is a passive allocation and it's the international value allocation that is active. Can you clarify whether this international growth RFP is for an active or passive manager.*

A: The RFP states that the System "is considering the selection of an Investment Manager for an active international equity portfolio that emphasizes the *growth style of investing*, for the OPERS fund." The existing ACWI ex-U.S. Growth Index is expected to be a source of funds for the potential new mandate. Of the total international allocation, 25% is currently allocated to the growth style and is managed passively. OPERS is seeking an active growth manager for a portion of this allocation.

2. *Question: Please confirm whether these assets are Defined Benefit or Defined Contribution.*

A: The mandate is for the OPERS Defined Benefit plan.

Contract Related

3. *Question: We would like to know whether the precise MFN language in the terms and conditions of the RFP is negotiable?*

A: The terms and conditions set forth are consistent with other advisor relationships. OPERS is not inclined to negotiate the contractual language under section VII General Terms and Conditions. OPERS believes the current language contained in the MFN clause is not retroactive. However, it does provide protection to the System should a similar relationship to OPERS receive a superior fee schedule going forward, as the clause reads "In the event the Vendor agrees to charge any other client a lower fee for management of similar funds or accounts, the Vendor will reduce its fee to the Board to the same extent."

4. Question: We have reviewed the General Terms and Conditions under Section VII. Our standard MFN language is forward looking since historical clients may have received a grandfathered benefit (e.g., for being the seed investor in the strategy). We would like to know whether OPERS is agreeable to such forward looking MFN language under Section VII. I.?

A: See related answer above.

5. Question: Regarding Section VII (General Terms and Conditions), paragraph I, is this precise MFN language negotiable at the contract award stage? Specifically, would OPERS be willing to consider changes to this language to limit the scope of the MFN in accordance with the manager's standard MFN language (e.g., limiting the MFN to future similar United States separate account clients with a substantially similar asset size in the same investment mandate with exclusions for pricing for affiliates, performance fees and relationship pricing)?

A: See related answer above.

6. Question: Regarding Section II (Mandatory Requirements for Submitting a Proposal), paragraph F (relating to audit rights), we have agreed to provide third party audit rights to clients in the past, but the contract provisions we enter into typically state that (a) we will be provided with reasonable advance notice of any such audit and (b) any audit would not include the confidential information of our other clients or the firm's proprietary confidential information. Would OPERS consider including such clarifications in the contract language between the selected investment manager and OPERS?

A: As provided in Section II, Paragraph F, any potential audit is limited to the vendor's performance of the contract with OPERS. We know there have been no such audits in the last ten (10) years, and no one can remember any audits of this nature being conducted. If an audit is required, reasonable advance notice will be provided. Confidential information of other clients should not be a concern. It is highly unlikely that an audit would include examining confidential information of another client or include the vendor's proprietary confidential information unless it related to the performance under the contract. Confidentiality is an issue of law or contract and any legitimate claim of confidentiality would be addressed on an individual basis.

7. Question: Regarding Section II (Mandatory Requirements for Submitting a Proposal), paragraph N (relating to prohibitions on finder's fees), could OPERS please confirm that this language is not intended to prohibit the selected investment manager from compensating/paying commissions to its internal salesperson who was involved with the award of the OPERS mandate based on a percentage of revenue generated from the OPERS mandate?

A: This prohibition is directly applicable to third party marketers. It is not intended to prohibit the compensation structure of any one employee at an investment advisor.

8. Question: Regarding Section II (Mandatory Requirements for Submitting a Proposal), paragraph O, item 1, are there any exemptions available under Oklahoma law from the prohibitions on transactions

with parties in interest as set forth in the cited Oklahoma statute (Section 909.2 of Title 74 of the Oklahoma Statutes) similar to the qualified professional asset manager (QPAM) exemption that is available under ERISA? Also, does OPERS provide its investment managers with a list of its parties in interest?

A: The duties of fiduciaries are set forth in 74 O.S. §909.2. There are no exemptions regarding the duties of fiduciaries under Oklahoma law. OPERS does not normally provide a list of its parties in interest but can do so as the need may arise.

9. *Question: With respect to Section II (Mandatory Requirements for Submitting a Proposal), paragraph O, item 4 and certain portions of the SIP, in lieu of delivery of a quarterly statement of compliance with the SIP signed by a portfolio manager and principal of the firm, would OPERS consider accepting a compliance certificate which would confirm compliance with the account's specific investment guidelines signed by the firm's portfolio compliance officer? This is our typical process for clients requiring compliance certificates.*

A: Compliance certification signed by the firm's compliance officer will suffice.

10. *Question: Regarding Section VII (General Terms and Conditions), paragraph G (Ownership of Data and Work Product), can OPERS please clarify the meaning and practical application of this section in the context of an agreement for investment management services? This would be a very unusual provision to include in an investment management agreement in our experience. Can OPERS please confirm whether this is a mandatory term or a preferred term? If mandatory, can OPERS confirm that this language is not intended to extend to rights in the selected investment manager's proprietary information regarding investment and trading strategies?*

A: The terms and conditions set forth are consistent with other advisor relationships with OPERS. It is to be assumed that OPERS owns the work product and data associated with the mandate. The work product includes, but is not limited to, the list of holdings and performance records. It does not include an investment manager's investment and trading strategies.

11. *Question: Regarding Section VII (General Terms and Conditions), paragraph H (Limitation of Liability, Hold Harmless Clauses & Indemnity), can OPERS please confirm that this language is not intended to hold investment managers strictly liable? Specifically, would it be permissible for the selected manager's contract with OPERS to clarify that the manager would not be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the management of the account, including without limitation, any claim for underperformance of the account or acting upon what it shall reasonably believe as authorized instructions, except for the manager's failure to exercise the standard of care set forth on p. 3 of OPERS' SIP (i.e, the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims) in the performance of its duties and obligations under the contract?*

A: OPERS will not agree to a contract provision that limits the liability of the manager, or hold the prospective manager harmless. The absence of a specific limitation does not create and is not intended to create strict liability. Any liability to OPERS would require a breach of a duty as a fiduciary or breach of a duty or requirement set forth in the contract. The prospective manager assumes a fiduciary duty to the plan. Provided the prospective manager acts as a fiduciary, investment losses by themselves relative to the appropriate benchmark are not considered under this provision.

12. Question: Page 7 of the RFP states the following:

“ The State of Oklahoma and its agencies are prohibited from holding a private entity harmless from liability or providing indemnity to a private entity. OPERS will not agree to limiting the liability of a private Vendor. [Emphasis added] The contract between the successful Vendor and OPERS will not have any such terms.”

[Manager] cannot guarantee the performance of any account we advise, and can only accept liability when a loss arises out of our willful misfeasance, bad faith or negligence. Would this be acceptable to OPERS?

A: See related answer above.

Website Related

13. Question: On page 7 of 17 item C, Investment Guidelines, I am unable to locate the Statement of Policy Guidelines and Investment Objectives on the OPERS website. Can you please direct me to the this link?

A: The Statement of Investment Policy can be found on OPERS’ website (www.opers.ok.gov) two ways. From the OPERS homepage:

- 1) Click About, Click Investments, Click Statement of Investment Policy in the first paragraph
- 2) Click on the RFP for International Growth Equity announcement, Click Investment Policy

14. Question: I didn’t see the Policy Statement as a link on the website. Can you direct me as to where I might locate it?

A: See related answer above.

Benchmark Related

15. Question: What will be the benchmark for the International Growth Portfolio?

A: Several questions within the RFP ask the respondent to identify which benchmark is most appropriate for the product offered. OPERS manages the international equity allocation to the MSCI ACWI ex-US Index. Preference would likely be given to products that are benchmarked against the MSCI ACWI ex-US Growth Index.

16. *Question: Is there a preferred benchmark for this mandate, as we did not see one explicitly stated in the documents?*

A: See related answer above.

Qualification/Consideration Related

17. *Question: Will you consider regional portfolios such as European Growth?*

A: Preference would likely be given to products that are benchmarked against the MSCI ACWI ex-US Growth Index. Stand-alone regional portfolios are not preferred.

18. *Question: Will you consider international small cap growth?*

A: No.

19. *Question: We offer both separately managed accounts and commingled vehicles for our International Growth Equity strategy. However, we would not be able to comply with Exhibit A, Part B, #1 instructions to sell securities from a commingled account to pay management fees. Would this prohibit us from offering our commingled vehicle as an option for Oklahoma ERS?*

A: Yes.

20. *Question: Please confirm the scope of the OPERS definition of "institutional experience" ?*

A: The intended meaning of institutional experience includes, but is not limited to, the senior-level professionals associated with the product having at least ten years of fully discretionary investment decision-making experience associated with dedicated non-U.S. equity portfolios for institutions.

21. *Question: We offer a growth oriented international equity strategy with a track record of over 10 years, but it is developed-only in nature and is managed against the S&P Developed Ex-US Broad Market Index (BMI) benchmark. As an offshoot of this strategy, we started managing an international equity strategy with emerging markets exposure in early 2010 – the strategy is managed against the MSCI ACWI ex-US index and will have a three year performance track record by the end of February 2013 and currently has over \$500 million in assets under management. As such, we would like clarification on the following:*

- *Do you require a minimum track record for the submitted strategy?*

A: From your description, it would appear that the historical experience is consistent with the criteria set forth in the Statement of Investment Policy. However, the minimum criteria under section IV(A) must be met for consideration.

- *Do you prefer a strategy with some exposure to emerging markets (managed versus the ACWI ex-US) or would you consider a developed-markets strategy? We have noted that your other international equity managers are managed versus the ACWI ex-US.*

A: Preference will likely be given to mandates that use the ACWI ex-U.S. Growth Index as a benchmark.

- *Is it advisable that we complete the proposal for both strategies? If so, do you require separate documents/packets for each strategy or can we fill out the questionnaire and cover both strategies in one document?*

A: OPERS will not advise managers on which submissions to make. If the submission covers multiple products, it is up to the respondent to be absolutely clear as to which product offering the answer is referring. Any confusion on the part of the reader will result in disqualification of the entire submission.

22. Question: Statement of Investment Policy: Section X Selection Process Guidelines Section E. 1. b.

The Statement of Investment Policy states that performance records submitted for international equity managers must have a 5 year duration. The investment manager has a performance record benchmarked to the MSCI EAFE Index, with up to a 15% emerging markets exposure, which has a 17-year record, as well as a similarly managed product benchmarked to the MSCI ACWI ex-US Index which has a one-year record. Will OPERS and URSJJ accept a proposal from an investment manager with a longer term track record benchmarked to the MSCI EAFE Index?

A: From your description, it would appear that the historical experience is consistent with the criteria set forth in the Statement of Investment Policy. However, the minimum criteria under section IV(A) must be met for consideration.

Other

23. Question: We require clarification in regards to question 15 on page 12 of the RFP (shown below): The data elements in the table below are calculated for a point in time (ex. "as of 12/31/2012"). However, the question states to provide the data for the last four years. Can you please confirm that you are asking for the year end dates for the past four years., (ex. As of 12-31-12, 12-31-11, 12-31-10, and 12-31-09) and not an annualized number? Our performance group can only calculate the factor exposures below as of a single point in time.

A: Confirmed. Respondents should provide portfolio factor exposures (question 15) and portfolio characteristics (question 16) as of year-end 2012, year-end 2011, year-end 2010, and year-end 2009.

24. *Question: Please confirm if OPERS prefers to have their assets invested in a vehicle that does (or does not) participate in securities lending. Is it a requirement that the account participate in securities lending?*

A: OPERS has no preference in the securities lending status of the vehicle, but OPERS expects that separate accounts will participate in the securities lending program administered by the custodian. Pricing is a major consideration for awarding the mandate. If multiple fee schedules exist for commingled funds (i.e. with or without securities lending) the respondent should fill out Section IX, Fee quote and Exhibit A, Fee Quote Format for each share class. Properly label the separate fee schedules for the products covered in Section IX and Exhibit A.

25. *Question: Please clarify how OPERS defines the following statement from the Investment Guidelines (pg. 5: VII; 2:) "generally expect to be fully invested".*

A: Cash should not play a tactical role in the management of the mandate. OPERS expects the successful candidate to keep cash levels at a minimum.

26. *Question: Please confirm if an economic sector represents 25% of the relevant index, then exposure to that that sector in the portfolio would be limited to a maximum of 75% (= 3 x 25%). (pg. 8, C.8:).*

A: OPERS cannot confirm. The Statement of Investment Policy reads:

The maximum limit in any economic sector (as defined by the Global Industry Classification Standard®) shall not exceed the greater of three times the appropriate benchmark commitment to that sector or 10% of the market value at the time of purchase of a portfolio managed on behalf of OPERS or URSJJ. Guidelines for managers may be amended at the discretion of the Board.

27. *Question: Page 13 of the SIP discusses commission recapture and references Appendix 4 regarding requirements for non-US equity mandates. Appendix 4 notes a "0%" or "NA" in the recapture target column. Could OPERS please confirm that it would not require commission recapture targets / direct brokerage commissions for this international growth equity mandate?*

A: OPERS preference is that its advisors participate in the recapture program administered by OPERS' custodian. However, advisor participation is determined on a case-by-case basis.

28. *Question: With respect to Section VIII, Section D (Trading/Compliance), question 1, can OPERS please clarify the meaning of "total operating expenses" as used in this question? We acquire research through the use of soft dollars, but a firm's "operating expenses" would fall outside the scope of Section 28(e) of*

the Securities Exchange Act of 1934, so we are unsure what information specifically you are looking for on this question?

A: This question is attempting to gauge the intensity of soft dollar usage, if soft dollars are used at all. OPERS is seeking the respondent's soft dollar policy, and also a metric to determine the intensity of soft dollar usage. The metric is calculated by dividing the total value of soft dollars (for 2012) by the firm's annual operating budget (for 2012).

29. Question: Is our understanding correct that managers of commingled fund investments are exempt from OPERS/URSJJ's overall policies and guidelines (not just commission recapture and securities lending) given that commingled funds would typically be governed by their own policies and guidelines?

A: The Investment Policy authorizes the Board to use commingled investment vehicles, and review the fund(s) for compatibility with respect to guidelines, liquidity restrictions, fee structure, and withdrawal specifications. By hiring the manager, the Board has approved the guidelines of any commingled funds. Respondents who submit a comingled fund for consideration should provide their fund guidelines with their proposal.

30. Question: Statement of Investment Policy: Section VII Investment Guidelines, Section C. Non-U.S. Equity Investment Managers

The investment manager may utilize certain broker counterparties to purchase equity linked certificates, commonly known as Participatory-Notes, to obtain exposure to certain foreign markets where OPERS and URSJJ may not be able to invest directly (for example, due to a pending tax agent appointment or not being opened in a foreign country). These securities are generally not convertible into common equities, and typically have only the issuer as a counterparty. Would Non-U.S. Equity Managers (for separately managed accounts) be eligible to purchase these equity linked certificates for OPERS and URSJJ in the event the separate account not be open in a particular market?

A: Currently, the guidelines for non-U.S. equity managers prohibit securities that are not convertible into or entitle the holder to common equities.

31. Question: Request for Proposal: Section X

In the proposal summary chart, could you confirm that the "Availability of Funds" column is related to the liquidity of the investment vehicle (i.e.- the frequency in which OPERS and URSJJ would be able to take money from the account/vehicle)?

A: Confirmed. OPERS would also like to know the details of settlement.