Fresno County Employees' Retirement Association ("FCERA")

RFP for General Investment Consultant Services

Responses to Questions Received

1. What prompted the glide path strategy for asset allocation, and in particular the planned increase in equity exposure?

   This was a consultant recommendation. The Board's decision to adopt the glide path reflects an appetite on the part of the plan sponsor and the Board to slowly increase risk to achieve increased returns. It is recognized that a decline in equities is possible and, should that occur, the Board would further accelerate the purchase of equities.

2. Is this planned increase in equity exposure dependent on a global and/or US stock market correction?

   No. It is a manifestation of the primary sponsor's acceptance of increased volatility in the pursuit of higher returns, and the Board's desire to take on more risk to achieve increased returns.

3. What is the specific scope of services for operational due diligence for "covered" managers required of the general consultant?

   FCERA is interested in learning what proponents offer in the way of operational due diligence as distinct from investment due diligence. FCERA considers operational due diligence to focus on managers' key business risks including, but not limited to, quality of personnel, operational infrastructure, compliance programs, technology solutions, governance, and oversight including internal controls; and that a significant portion of operational due diligence occurs on-site in managers' offices, both current and prospective managers. If proponents believe the operational due diligence services they usually and customarily offer clients are broader than what is described above, they are encouraged to include such services in their proposal. Alternatively, if the scope of operational due diligence services offered is narrower than those described above, proponents are encouraged to provide an explanation as to why they believe it is sufficient for FCERA. FCERA is also interested in learning what proponents believe is the "best" scope of services involving operational due diligence for a plan such as FCERA that has no investment staff.

4. Is there any expected change to the structure and line-up of specialty consultants?

   Unless the successful proponent recommends otherwise, FCERA is not contemplating any changes to the structure and line-up of specialty consultants.

5. We're working under the assumption this will be an advisory relationship (i.e., not OCIO), but there are multiple requests pertaining to our OCIO offerings. Is there any interest/appetite for OCIO?

   FCERA is not interested in an OCIO relationship. The RFP includes questions pertaining to proponents' OCIO offerings simply to help FCERA better understand proponents' overall services and capabilities.

6. With the recent change to FCERA's investment policy and structure, what follow-up activity (searches, terminations, analyses) is expected in the coming three years?

   Currently, Ivy is being replaced with T Rowe Price, and there will be a transition completed within Q3 2018. Finalists will be interviewed to augment the emerging markets allocation, currently managed by Mondrian. Staff anticipates that Mondrian's allocation will be halved and a new manager will be added. Our allocation to commodities is being phased out and our investment in Invesco's commodities fund will therefore be terminated; we will, however, continue to be invested in Invesco's real estate fund. There are no other known searches or terminations at this time.

7. Is the comprehensive asset allocation study synonymous with an asset-liability study, or are they two separate analyses?

   Yes, asset allocation study and asset-liability study are synonymous.

8. Could we be provided reports from earlier phases of the asset-liability study, which are not found online, to better understand the reasons for moving into the new asset allocation? The reason for the request is that FCERA will end up with a 93% return-seeking allocation (by our definition, everything other than core bonds would be considered return-seeking), which is at the higher end of the risk spectrum. However, FCERA is somewhat conservative with their return assumption of 7.00%. We are trying to gain some insight on why the outcome of their asset-liability study was to increase the volatility of the portfolio at a time when peers are typically looking to limit it.

   All aspects of the asset-liability study may be found on FCERA's website. Audio recordings of board meetings may also be found on the website; these indicate that Board members are disappointed with FCERA's performance relative to its peers during this recent "bull" market. The Board has also been questioned about why it doesn't hold more stocks, given that stocks have historically outperformed bonds. During the last study performed over 5 years ago, the County came to the Board of Retirement asking the Board to reduce volatility as it could not handle the impact of such volatility. Currently, the new Board of Supervisors has a higher tolerance for volatility, and the Board of Retirement has a new risk appetite.

   Proponents may wish to listen to the audio on these dates for more background.

Phase 1: http://www2.co.fresno.ca.us/9200/Attachments/Agendas/2018/20180207/20180207-6A-AssetLiabilityStudyPhase1-1Presentation.pdf
Phase 2: http://www2.co.fresno.ca.us/9200/Attachments/Agendas/2018/20180307/20180307-6B-AssetLiabilityStudy-1Phase2.pdf
Phase 3: http://www2.co.fresno.ca.us/9200/Attachments/Agendas/2018/20180404/20180404-6D-AssetLiabilityStudyPhase3-1Presentation.pdf
Phase 4: http://www2.co.fresno.ca.us/9200/Attachments/Agendas/2018/20180502/20180502-6C-FCERAAssetLiabilityStudyPhase4-1Presentation.pdf
Implementation and Next Steps:
http://www2.co.fresno.ca.us/9200/Attachments/Agendas/2018/20180606/20180606-6C-AssetLiabilityStudyImplementation-1Presentation.pdf
Implementation and IPS Statement:
http://www2.co.fresno.ca.us/9200/Attachments/Agendas/2018/20180801/20180801-6B-AssetLiabilityStudyImplementationandInvestmentPolicyStmt-0BLT.pdf

9. Is the scope outlined in the RFP consistent with the current consultant's contract? If not, what items are different?

The scope outlined in the RFP is fairly similar to the current consultant's contract. However, the current scope outlined in the RFP is more explicit regarding the desired services for manager due diligence. The current contract is about 10 years old, so some items may be dated in the current contract.

10. How many manager searches have been conducted each year, over the last 3 years?

Staff does not believe that past search activity is an indication of likely future search activity. Compiling a list of past searches will not reflect what actually needs to be done going forward, and staff does not believe this would yield helpful information for proponents.

Staff instead recommends proponents look at the current investment policy and manager line-up to determine what changes, if any, they believe are needed going forward.

If, however, the asset allocation were to remain unchanged, staff would foresee the following:

- The real estate portfolio consists primarily of core open-ended funds with some closed-end value-added funds. To remain fully allocated with new vintages over time, staff anticipates a search once a year or every other year.
- Private Equity and Private Credit, responsible for a lot of searches over the last three years, has been outsourced and staff anticipates none of these searches will be conducted by the General Investment Consultant going forward.
- Infrastructure is invested in a core open-ended fund and no searches are required, unless the proponent recommends adding a closed- end fund going forward.

- Changing problematic managers: If the proponent believes one or more of FCERA's current managers should be replaced, that could potentially lead to additional searches. Similarly, if any current managers experience changes requiring that they be terminated, additional searches may be required. Neither of the above possibilities, however, can be predicted at the present time.

If, on the other hand, the proponent recommends changes in the asset allocation policy of the Fund, additional searches may be required to implement such changes. These also cannot be predicted at this time.

11. Has the Fund historically performed an A/L study every four years consistent with current policy, or have there been studies performed at different intervals in the past?

Staff has not been present long enough to see a pattern and further believes that past practice may not necessarily reflect what staff wishes to do going forward. The RFP requests that a study be performed every three years, which staff believes is "best practice". FCERA, however, is open to an alternative cycle that proponents believe reflects "best practice", if proponents can provide documentation and references to support it. Staff further understands that an alternative cycle may impact fees and costs. Proponents should propose a cycle they believe represents best practices along with the associated costs.