

Investment Consultant Services for: General Investments and Risk Private Equity Real Assets Real Estate

Requests for Proposal

Issued August 2021

Orange County Employees Retirement System (OCERS)

2223 E Wellington Avenue Suite 100

Santa Ana, CA 92701 USA

1-(714)-558-6200

<http://www.ocers.org>

Submitted Questions and Answers

- How many commitments do you plan to make per year within each of your private equity, real estate, and real assets portfolios?

Response: Private equity: OCERS targets 10-13 partnership commitments per year (one partnership commitment could include multiple funds with the same GP) and approximately 10 co-investments per year.

Real estate: Fewer than 5.

Real assets: Fewer than 5.

- For private equity, how many primary fund commitments and co-investments has OCERS made annually over the last three years, and does OCERS anticipate a similar level of activity going forward?

Response:

Primary fund:

2019	# of Partnership	13
	# of Funds	15
	\$ Commitments	\$495,300,000
2020	# of Partnership	11
	# of Funds	17
	\$ Commitments	\$454,800,000
As of August 2021	# of Partnership	8
	# of Funds	10
	\$ Commitments	\$300,000,000

Co-investments:

2019	# of Partnership	0
	# of Funds	0
	\$ Commitments	\$0
2020	# of Partnership	0
	# of Funds	0
	\$ Commitments	\$0
As of August 2021	# of Partnership	3
	# of Funds	3
	\$ Commitments	\$25,000,000

OCERS targets 10-13 partnership commitments per year (one partnership commitment could include multiple funds with the same GP) and approximately 10 co-investments per year.

- What do you expect to commit to private real estate on an annual basis over the next three years? How many private real estate funds do you expect to commit to annually?

Response: OCERS FY 2022 Investment Plan includes \$150 - \$225 million to 2-3 non-core real estate commitments. OCERS updates the investment plan annually.

4. The real estate allocation is currently under target, 4.7% vs. 7.0%. Is that allocation by design in the short-term? Is it anticipated that the Real Estate consultant will need to consider pacing to bring allocation to target? If so, within what time period?

Response: As part of the new asset allocation in April 2020, the real estate target was reduced from 9% to 7%. OCERS has been redeeming from several core managers to move its allocation towards the lower target. OCERS continues to make new commitments on the non-core side to move towards a more balanced real estate portfolio of 60% core/40% non-core. As of 6/30/21, the OCERS Investment Team estimates that the real estate market value plus unfunded commitments totals approximately 6.5%. OCERS' Investment Team works with the real estate consultant to develop an annual pacing plan for real estate.

5. Can you describe your governance process related to co-investments?

Response: The Board has approved a co-investment program for up to 10% of the annual private equity commitment allocation. Co-investments must be sourced from existing GPs within the portfolio. Both OCERS' Investment Team and private equity consultant will conduct due diligence. The CIO has delegated authority to approve the transactions.

6. Do co-investments require Board approval?

Response: The CIO has delegated authority to make the decision on co-investments.

7. Does OCERS consider co-investments from GPs not in the current portfolio?

Response: Currently co-investments must be sourced from existing GPs.

8. What is the minimum time frame required to execute a co-investment?

Response: OCERS' Investment Team can execute in a short time frame since the CIO has delegated authority but OCERS' external investment counsel still must negotiate a side letter to guarantee OCERS has its necessary protections.

9. Can you provide details on the scope of service needed to support OCERS's co-investment activity? Specifically:

- a. Does OCERS seek to actively pursue co-investments in all alternative mandate (private equity, real estate, real assets), and if so, what is the target / expected volume in each mandate?

Response: OCERS' Investment Team can pursue co-investments in private equity only right now that are sourced from existing GPs and up to 10% of annual private equity commitments.

- b. Are you open to consultants that might recommend specialist investment managers/funds that would co-invest on behalf of OCERS in a commingled fund or separate account? And/or do you require consultants to source and/or vet co-investments deals for OCERS to invest in directly?

Response: OCERS would consider various structures but is not seeking a full discretion co-investment vehicle managed by a fund manager. The private equity consultant would

be asked to help source and vet co-investment deals alongside OCERS' Investment Team.

10. Are hedge fund strategies used within other sleeves and if so, could you also provide the individual fund names there too (Example – Pharo in the Credit sleeve)?

Response: At the present time, hedge funds are within credit, risk mitigation and unique strategies. Please refer to Quarterly Performance Report in appendix C for all investment manager names and strategies.

11. Can you disclose the individual fund names of each strategy used in the risk mitigation pool?

Response: Please refer to the Quarterly Performance Report in appendix C.

12. Do you plan to maintain the risk mitigation pool as is or would you consider returning to an absolute return mandate?

Response: OCERS is continuously evaluating the Investment program, having said, that, there are no immediate plans to change the focus of the risk mitigation allocation.

13. Risk mitigation can be accomplished through a variety of approaches. Has the Board actively considered alternative structures to crisis risk offset?

Response: Risk mitigation is dynamic allowing OCERS to be flexible in its approach.

14. Can you provide some examples of funds/mandates that could fall into unique strategy portfolio?

Response: Please refer to the Quarterly Performance Report in appendix C.

15. Can the selected consultant charge on a per fund basis for the unique strategy portfolio or would OCERS prefer for this to be included in the annual fee proposal?

Response: Please provide fees under both scenarios.

16. How many exited investments and live investments are there over the full history of the return series?

Response: Please refer to the Alternative Investment Holdings in appendix C for a list of all the current and exited alternative investments.

17. Is a desktop review framework sufficient to meet the operational due diligence expectations and requirements?

Response: OCERS expects the Operational Due Diligence to meet the industry standards.

18. Appendix D, Scope of Services for Alternative Investments, qu 3 – Does OCERS require co-investment due diligence to provide an independent valuation?

Response: No. We currently do not require an independent valuation because we are relying on the GPs' valuation. However, if we were to extend our co-investment sourcing beyond our current GPs, we may ask for independent valuation.

19. Section 3, Questionnaire Exhibit Checklist – we note that OCERS have not asked for an Investment Due Diligence report on a co-mingled fund. Is this intentional or should we submit an Investment Due Diligence report?
Response: Please submit an Investment Due Diligence report.
20. Should the quarterly report include analysis of underlying holdings for each investment fund?
Response: OCERS expects quantitative data for each of the underlying holdings in the quarterly report including commitment data, contributions, distributions, market value, and performance information.
21. Appendix D, Scope of Services for Alternative Investments, qu 4a - What return methodology is employed by OCERS custody bank? 4(a)v states “The Consultant shall calculate various rates of return such as time and dollar-weighted averages, internal rates of return, multiples of invested capital” – specifically what method is employed, e.g. Modified-Bai, simple compounded daily time weighted returns which tie into monthly cut off data at the custodian bank, etc.?
Response: The default performance methodology on monthly clients is IRR. In cases where cash flows exceed 10%, the custodian bank will employ a time-weighted return calculation to negate the potential impact of the large cash flows.
22. Appendix D, Scope of Services for Alternative Investments, qu 4a - We note that 4(a)(ii) states “The quarterly reports shall be completed and submitted within 45 days following the submission to the Consultant of accurate data by OCERS or, at OCERS’ election, by the custody bank.” and that 4(b) states “Reconcile all cash flows, net asset values, and investment data for accuracy.” Accordingly, is the selected Consultant expected to shadow track the investments but ultimately over ride their data with custody bank cut off data? Or if the reconciliation data would be provided with the quarterly reports with those quarterly reports using the Consultant shadow books and records?
Response: OCERS’ Custodian calculates time weighted returns on a monthly basis. The alternative asset consultant is expected to independently collect data from custodian/investment managers, reconcile cash flows, validate net asset values and calculate time weighted returns as well as IRRs.
23. Appendix D, Alternative Investments - Does the contemplated reporting services include any involvement in setting up wires or cash payments to support capital call processing?
Response: The custodian and OCERS’ Finance and Investment teams handle all capital call processing.
24. For annual fee verification services, should fees and expenses be reviewed on both a cash and accrual basis?
Responses: Fees should be collected on both a cash and accrual basis.
25. When was the last asset/liability study conducted? Were any new asset classes added as a result of the study?

Response: The last liability and sensitivity analysis was conducted in last half of 2020. The last asset allocation study was conducted in first half of 2020 and resulted in increasing public equity from 35% to 47%, private equity from 10% to 13%, reducing fixed income from 17% to 11%, Credit from 11% to 7%, real assets from 17% to 12%.

26. With a 76% funded status at a 7% assumed rate, does the Board believe the current asset allocation and structure will support stable contribution rates and reduction in the unfunded liability?

Response: OCERS has worked towards improving the funded ratio and it is generally healthy, especially when combined with a strong contribution policy as well as a well-diversified investment program. While the program is expected to mature in the next decade or so, the UAAL is being actively paid down as well.

27. What do you think is the single most important characteristic of an investment consulting firm?

Response: We believe responsiveness and flexibility is crucial.

28. What is the most important investment issue your portfolio is currently facing?

Response: Risk management in the face of rich valuations across all asset classes makes the investing environment a challenge.

29. Does the Board evaluate any of the Environmental, Social or Governance aspects of the portfolio or its managers?

Response: OCERS does not have an ESG policy.

30. Is OCERS satisfied with current investment performance of the fund? Where do you see opportunities for improvement?

Response: OCERS continuously wants to improve investment performance. We want to address the question “when is the right time to consider internal trading”?

31. What is the biggest point of concern for the Investment Team as this time?

Response: How to balance investment manager creep relative to the size of OCERS’ Investment Team?

32. Does OCERS have any specific projects planned for its general and/or alternatives consultants to undertake at the beginning of the next consulting engagement?

Response: While OCERS is continuously evaluating the investment program, we are looking to issue an RFP for the custodian in 2022 and remain focused on expanding the co-investment program.

33. Appendix D, Scope of Services for Alternative Investments, qu 1.e. - Could OCERS please give examples of the type of special projects anticipated?

Response: Special projects could involve education, collection and research on investment related areas such as fees, trends, etc.

34. Please identify the custodian(s) that provide services for OCERS. When was the custodial service agreements and fee arrangements last reviewed?

Response: State Street provides custodian services to OCERS. OCERS is looking to issue an RFP for these services in 2022.

35. For the monthly meeting focused on Alternatives, is OCERS expecting the Consultant to attend in-person or via Zoom/digital?

Response: We expect monthly meetings with OCERS' Investment Team (staff) to be digital.

36. A review of your past investment committee meeting dates reflects the 4th Wednesday of each month as the most common monthly meeting day, though it also appears in 2021 there were a few exceptions. Can you comment on the scheduling of investment committee dates, including the next 12-month calendar?

Response: Historically, the majority of Investment Committee meetings are held on the 4th Wednesday of each month but there could be some exceptions. OCERS expects to release the 2022 Investment Committee calendar later this year.

37. When in the year are the Education Forum and annual strategic planning meetings held?

Response: Education Forum/Strategic Planning meetings are generally held in September.

38. What is the size of your senior staff? Do you have any dedicated staff to private equity, private real assets, real estate, and/or private credit?

Response: In addition to the CIO, the investment team has 2 Directors, 2 Senior Investment Officers, 1 Senior Investment Analyst and 3 Investment Analysts. While we strive to be generalists, we have at least 1 senior staff dedicated to the areas of private equity, private real assets, real estate and/or private credit.

39. What are the motivations to conduct consulting RFPs at this time? Is OCERS happy with their current service providers?

Response: OCERS as a public entity is required to issue RFPs for its service providers on a periodic basis. At the present time are no concerns with our existing service providers.

40. What fees are paid to each consultant providing services for each of the mandates for which the RFP has been issued?

Response: OCERS expects to disclose the requested fee information in the event a firm advances to the semi-finals stage of the process.

41. Section 3 - Does OCERS expect respondents to transfer intellectual property rights of documents submitted to OCERS such that OCERS can use, copy or redistribute any information submitted through the RFP or is OCERS simply informing respondents that they do not intend to return any documents submitted as part of the RFP response?

Response: OCERS is not expecting respondents to transfer intellectual property, however, please refer to the RFP on disclosure requirements.

42. Section 10 - If selected to provide services, would OCERS be willing to negotiate a contract such that the contract terms would be mutually acceptable to both parties?

Response: OCERS is willing to negotiate reasonable contract terms.

43. Section 9 - Please advise if OCERS would like a redacted version of the response to be submitted.

Response: Yes, please provide a redacted version but be aware that only very specific information contained within the RFP will be deemed protected.