

INVITATION TO BID (ITB) 07-S12060 FOR INVESTMENT CONSULTING SERVICES

Questions and Responses

August 24, 2018

Correction from the Department

The terms of the Investment Consultant Agreements are expected to begin on *April* 1, 2019, and extend for five years. The ITB incorrectly included an expected starting date of *March* 1, 2019.

Questions and Responses

1. Section IV of Appendix B – Scope of Work for the Retirement Systems requires that, “if requested by the Department, the Consultant shall attend and present performance reports, research, benchmarking reports, and other deliverables at the quarterly meetings of the Investment Advisory Committee.” Is the Department able to estimate how many in-person meetings the consultant will be requested to attend? Is a preliminary schedule of the Investment Advisory meetings available?

In the past, the consultant has rarely been asked to attend meetings of the Investment Advisory Committee (IAC); however, to the extent the frequency increases in the future, the IAC’s meeting schedule is below. For purposes of bidding, assume attendance at one IAC meeting per year.

Investment Advisory Committee (IAC)

The IAC has quarterly scheduled meetings, and special meetings are called as needed. The meeting dates for 2018 are February 15, May 17, August 23, and November 15. The meeting dates for 2019 are February 20, May 22, August 21, and November 20. The dates, agendas, and materials for IAC meetings from 2011 through 2018 are on the Department’s website at www.nctreasurer.com/inv/Pages/IAC-Reports.aspx.

2. Please provide a detailed description of the “hedged equity component of the Public Equities Portfolio.”

See p. 19-20 of the Investment Policy Statement for the Retirement Systems. The policy is located on the Department’s website at www.nctreasurer.com/inside-the-department/OpenGovernment/Policies/Investment%20Policy%20Statement%20for%20NCRS.pdf.

The consultant would only review the hedged equity portfolio as part of the overall public equity portfolio – not at a manager-specific level.

3. Does the Department anticipate making any immediate changes to the asset allocation of the Retirement Systems? Is the Department currently considering any new asset classes?

No significant changes are planned at this time.

4. Is the Department able to estimate how many “*ad hoc*” quantitative and qualitative monitoring and evaluations of the (1) real estate investment trusts (REITs) (the “REIT Portfolio”); and (2) Treasury Inflation-Protected Securities (TIPS) in the Retirement Systems’ Inflation Sensitive Portfolio” will be required each year?

The Department does not have an estimate, but the work should be infrequent. For the purpose of bidding, assume one project per year.

5. Which custody bank does the Department currently employ as its custodian for the Retirement Systems’ Public Equities Portfolio?

The Bank of New York Mellon

6. Are you able to share samples of the recordkeeping and fee benchmarking reports in Appendix A?

The most recent recordkeeping benchmarking report for the Supplemental Retirement Plans is located on the Department’s website at www.nctreasurer.com/ret/Board%20of%20Trustees/IX.%20a%20Recordkeeper%20Benchmarking%20Report%202018.pdf.

7. What is the estimated frequency of *ad hoc* REIT and TIPS monitoring and evaluation described in Section II.G of Appendix B on p.20?

The Department does not have an estimate, but the work should be infrequent. For the purpose of bidding, assume one project per year.

8. Are hedge fund manager searches and due diligence part of the Scope of Work for the Retirement Systems?

No

9. In Section 8. Risk Management (vii), the ITB requests bidders to submit “audited financial statements.” Is the Board and System requesting just the last year’s statement?

Yes. Firms should submit only the most recent audited financial statements.

10. Is the Retirement System considering any material structural changes to the public markets equity portfolio?

No significant changes are planned at this time.

11. How do the Retirement Systems and Retirement Plans address corporate governance and proxy voting?

The Retirement Systems and the Supplemental Retirement Plans vote all proxies for public equities held in separately managed accounts. The Retirement Systems and the Supplemental Retirement Plans have adopted the voting guidelines of their proxy voting vendor, Glass Lewis. A copy of the policy for the Retirement Systems and the Supplemental Retirement Plans is on the Department's website at www.nctreasurer.com/inside-the-department/OpenGovernment/Policies/Proxy%20Voting%20Guidelines.pdf.

12. Is the Department considering any near-term material structural changes to the NC 401(k) Plan and NC 457 Plan investment programs?

At this time, there are no significant investment or plan design changes planned for the next 12 months that have been approved by the Board.

13. Have you assigned weightings to the evaluation criteria identified in the ITB? Will you identify what those weightings are?

There are no assigned weightings to the evaluation criteria at this time.

17. How many in-person meetings does the current Public Equity Portfolio consultant attend each year? Is it four quarterly investment committee meetings plus four quarterly board meetings?

In the past, the consultant has rarely been asked to attend meetings of the Investment Advisory Committee (IAC); however, to the extent that changes in the future, the IAC's meeting schedule is below. Also, the IAC does not have an investment subcommittee.

Investment Advisory Committee (IAC)

The IAC has quarterly scheduled meetings, and special meetings are called as needed. The meeting dates for 2018 are February 15, May 17, August 23, and November 15. The meeting dates for 2019 are February 20, May 22, August 21, and November 20. The dates, agendas, and materials for IAC meetings from 2011 through 2018 are on the Department's website at www.nctreasurer.com/inv/Pages/IAC-Reports.aspx.

18. Are there any perceived challenges/opportunities with the current public equity portfolio (performance, fees, etc.)?

There are no significant challenges/opportunities at this time.

19. What changes to strategy/managers have been made to the public equity portfolio in 2018 or are being discussed with the committee/portfolio team currently?

No material changes have been made in 2018. The Department has continued to reposition, and to some extent increase, the passive allocation in the Public Equity Portfolio as the Department's internal trading capabilities have expanded for the purpose of cost efficiency.

20. With regard to the public equity portfolio, what are your thoughts on ESG?

The Department does not currently have an ESG policy.

21. Are you interested in a delegated proposal in addition to traditional consulting for the DB equity portfolio?

No

23. Our understanding is that an Investment Advisory Committee oversees the Retirement Systems and that a separate Board and Investment Subcommittee oversees the Supplemental Retirement Plans. Can you please confirm the respective meeting schedules for 2019, which the investment consultant(s) would be expected to attend?

The Investment Advisory Committee (IAC) and the Supplemental Retirement Board of Trustees (Board) serve different roles for their respective retirement plans. The Board, as fiduciary of the Supplemental Retirement Plans, jointly administers the plans with the Department. The IAC, on the other hand, serves solely in an advisory capacity to the Department regarding the Retirement Systems; the Treasurer is the sole trustee of the Retirement Systems. The Board's charter is on the Department's website at www.nctreasurer.com/ret/Governing%20Documents/Board%20Charter%20-%202018-06-21-S%20-%20SRP.pdf. The IAC's charter also is on the Department's website at www.nctreasurer.com/inv/IAC%20Resources/InvestmentAdvisoryCommitteeCharter.pdf

Investment Advisory Committee (IAC)

The IAC has quarterly scheduled meetings, and special meetings are called as needed. The meeting dates for 2019 are February 20, May 22, August 21, and November 20. The dates, agendas, and materials for IAC meetings from 2011 through 2018 are on the Department's website at www.nctreasurer.com/inv/Pages/IAC-Reports.aspx.

Supplemental Retirement Board of Trustees

The Board has quarterly scheduled meetings, and special meetings are called as needed. The Board's Investment Subcommittee also meets quarterly, the month prior to Board meetings. The Board has not set the meeting schedule for 2019. However, the dates, agendas, and materials for Board and Investment Subcommittee meetings from 2013 through 2018 are on the Department's website at www.nctreasurer.com/ret/Pages/Supplemental-Board.aspx.

24. Would you like responses to include proposed fees for the other Additional Services outlined in the Scope of Work for the Supplemental Retirement Plans (Appendix A, "XII. Additional Services")?

No

25. Item X in the Scope for the Retirement Systems states “the following services are not included in the scope of services to which the Consulting Fee applies,” but there is not a provided list to follow within the RFP. Could you please provide a list of these “Additional Services” or clarify that you want the responding consulting firm to note additional services they are prepared to offer?

The omission of Additional Services for the Retirement Systems in Appendix B, Item X was an oversight. The Additional Services are (a) equity trade cost analysis; (b) foreign exchange trade cost analysis; and (c) benchmarking of service levels and fees for the Plans’ custodian.

26. Could you please clarify if the selected consultant for the Retirement Systems will be responsible for conducting asset allocation studies, in addition to providing research and advice on best practices and trends as stated by Item V in the Scope of Work?

Asset allocation work would be limited to the Public Equity Portfolio; plan-level asset allocation is not part of the scope of services.

27. Can you please provide the reason for the issuance of this RFP?

The ITB was initiated as part of the fiduciary process of the Board and the Department due to the upcoming expiration of the contracts for the incumbents.

28. How many manager searches within the public equity portfolio have been conducted each year, over the last 3 years, for the Retirement Systems?

One

29. How many manager searches have been conducted each year, over the last 3 years, for the Supplemental Retirement Plans?

Since the Supplemental Retirement Plans moved to an unbundled structure effective January 1, 2016, four manager searches have been conducted for the NC 401(k)/457 Plans’ investments.

30. Per the pricing proposal for the Supplemental Retirement Plans, it appears that we are requested to provide an additional fee for the “NC 403(b) Program performance reporting and fund searches.” Can you please provide more details on the nature of the scope of services requested for this additional item? Specifically:

- a. Would meetings take place on the same days as meetings for the Supplemental Retirement Plans? Yes. Please see the schedules above.
- b. Is the scope for performance reporting similar to what is requested for the Supplemental Retirement Plans? Yes; however, the investments in the NC 403(b) Program are limited to mutual funds.

- c. How many manager searches have been conducted each year, over the last 3 years, for the NC 403(b) Program? **Since January 1, 2016, three mutual fund searches have been conducted for the NC 403(b) Program.**

31. Is the expectation that Staff will join on-site due diligence reviews at the offices of the Supplemental Retirement Plans' and Retirement Systems' investment managers?

The Department expects that attendance at on-site visits will be infrequent.

32. Are there any investment initiatives being planned for the Supplemental Retirement Plans during the next 12 months?

At this time, there are no significant investment changes planned for the next 12 months that have been approved by the Board.

33. Are there any strategic plan initiatives that the Board expects to undertake within the next 12 months?

At this time, there are no plan design changes planned for the next 12 months that have been approved by the Board.

34. Can you please advise if there are any ongoing manager searches or restructuring projects which an incoming consultant would need to take over?

At this time, the Department does not expect an incoming consultant to take over an ongoing manager search for the Retirements Systems or the Supplemental Retirement Plans.

35. Currently, do the Retirement Systems utilize an investment consultant?

- a. If so, is the scope outlined in the RFP for the Retirement Systems consistent with the current consultant's contract? If not, what items are different?
- b. If possible, can you please provide the length of time your current consultant has been retained for the Retirement Systems?
- c. If possible, can you please provide the current fee being paid for consulting services related to the Retirement Systems?

Yes, the Retirement Systems currently utilizes an investment consultant. The scope of services for the Retirement Systems in the ITB is consistent with the current scope of services. The contract for the current consultant for the Retirement Systems' Public Equity Portfolio began in December 2017. The current annual consulting fee is \$285,000.