Responses to Inquiries
RFP 20-02
Investment Management Services for Emerging Markets Debt Separate Account Mandate

May 6, 2020

Minimum AUM Questions

1. Regarding the minimum qualification ***7. Have a minimum of at least $5 billion in assets under management within the strategy.*** Our firm has been managing an Emerging Markets Debt Local Currency strategy since 2006. Our Emerging Markets Debt Blended Currency strategy (a natural extension of our flagship Local Currency strategy) began in November of 2016. The Emerging Markets Debt Blended Currency strategy is roughly comprised of a 50% allocation to our Emerging Markets Debt Local Currency strategy and a 50% allocation to our Emerging Markets Debt Hard Currency strategy. **Would a strategy with assets under management of $2 billion be considered for this proposal?**

2. We note that one of the minimum stated requirements is to, <u>"Have a minimum of at least $5 billion in assets under management within the strategy"</u>. Would INPRS consider a specific strategy with less than $5 billion, but from an Investment Team that manages EM Debt assets (across different EMD strategies) significantly in excess of $5 billion in AUM?

3. Recognizing that a requirement of this RFP submission is to "have a minimum of at least $5 billion in assets under management within the strategy", would INPRS consider a submission from a top decile performing fund with $2BN in strategy level AUM, but $17BN total assets on the manger's EMD platform (including hard, local, and corporate EM debt)?

4. In regards to minimum criteria question 7, are there any degrees of freedom around the 5bn AUM figure, i.e. would 4.7b work or is this a hard limit?

Answer (Questions 1-4): Yes, these scenarios are acceptable to INPRS. The goal of this requirement is to ensure that managers have committed enough resources to EMD investing as a whole.

Benchmark Questions

5. In regards to minimum criteria #6, can we use a blended benchmark?

Answer: Currently, INPRS's preference is for a 50/50 split benchmark between the JPM EMBI and the JPM GBI-EM, with allowances for tracking error due to opportunistic use of corporate EM bonds.

6. Per the comment in the RFP: "The benchmark for the current mandate is 50% J.P. Morgan Emerging Market Bond Index Global Diversified ("JPM EMBI") and 50% J.P. Morgan Government Bond Index-Emerging Markets Global Diversified ("JPM GBI-EM"). However, we are open to adding exposure to the J.P. Morgan Corporate Emerging Market Bond Index ("JPM CEMBI")," has it been determined yet the desired weighting to Corporate EM? Our firm would like to propose a blended custom 40% hard /40% corporate /20% local portfolio and want to ensure that is within the guidelines of this mandate. Thank you.

   Answer: Currently, INPRS's preference is for a 50/50 split benchmark between the JPM EMBI and the JPM GBI-EM, with allowances for tracking error due to opportunistic use of corporate EM bonds.

7. Has INPRS determined the weighting between JPM EMBI, GBI-EM and CEMBI?

8. Does INPRS have a preferred benchmark for this proposal?

   Answer (Questions 7-8): Currently, INPRS's preference is for a 50/50 split benchmark between the JPM EMBI and the JPM GBI-EM, with allowances for tracking error due to opportunistic use of corporate EM bonds.

9. The RFP states that, "However, we are open to adding exposure to the J.P. Morgan Corporate Emerging Market Bond Index ("JPM CEMBI"). We are currently working with our Investment Partners to determine the desired benchmark weighting between the JPM EMBI, JPM GBI-EM, and JPM CEMBI indices." Please share any public Board or System materials that we should factor in our response to best serve members of the System.

   Answer: Currently, INPRS's preference is for a 50/50 split benchmark between the JPM EMBI and the JPM GBI-EM, with allowances for tracking error due to opportunistic use of corporate EM bonds.

Legal Questions

10. **Participating Affiliate Issue Question:** XYZ has reviewed the Indiana Public Retirement System Emerging Market Debt RFP (the "Indiana EMD RFP"). XYZ is submitting this question to request clarification and interpretation of the Indiana EMD RFP. Section 18.I. of the RFP's Sample IMA states as follows: "Manager hereby represents that it is registered as an investment advisor with the SEC under the Investment Advisers Act of 1940, as amended ("Advisers Act"), unless exempted from registration by the SEC."

    In addition to being an SEC-registered investment adviser, XYZ is also an indirect subsidiary of ABC, a non-U.S. investment adviser. 123 is an investment adviser registered in the United Kingdom with an office in London, and is also an indirect subsidiary of ABC. Thus, XYZ and

123 share the same ultimate corporate parent (ABC). Would it be permissible, pursuant to the terms of the Indiana EMD RFP if XYZ responded to the RFP and would serve as the investment adviser of record for the mandate and 123, pursuant to a Participating Affiliate Agreement with XYZ, would serve as the day-to-day investment manager for the mandate? XYZ would be amenable to supplying any additional information, as requested, about 123, as part of its Indiana EMD RFP Response.

Answer: Yes, this is acceptable.

11. Per Appendix B, a W-9 Form and State Registration are required. The proposed Investment Advisor is registered as an investment advisor under the Investment Advisors Act of 1940; however, the Advisor is principally located in London, UK with no employees located in the US and no US TIN (please note that the Advisor's parent company is US based). Is it acceptable to provide the Advisor's Foreign Tax ID to satisfy the W-9 Form requirement or must we only propose an Advisor with a US TIN? Additionally, as the Advisor is a non-US company—with no US TIN—would the Advisor still be required to register with the State (should we advance and be selected)?

    Answer: Yes, this is acceptable.

12. Regarding customization in a separate account vehicle, outside of the standard exclusions listed in Section 3 (i.e. Sudan, terror states, etc.), what other customization would be requested for this mandate?

    Answer: INPRS may be subject to additional contractual limitations in the future, but for purposes of this RFP no additional customizations of this kind are expected, other than typical investment-specific requirements.

13. Will INPRS provide a list of Prohibited Securities to ensure compliance with the below provision?
    "Securities identified as prohibited securities under the Indiana Sudan and Terror legislation (IC 5-10.2-9 Chapter 9. Sudan Divestment; IC 5-10.2-10 Chapter 10. Divestment from States the Sponsor Terror)."“e. Divestment related to Boycott, Divestment From, or Sanctions of Israel Act (IC 5-10.2-11)."

    Answer: Pursuant to statute, INPRS does provide a report regarding prohibited investments based on reporting from outside consultants and investment managers.

14. Regarding <u>Appendix A – Prohibited Broker/Dealer List (Exhibit C)</u>: While no brokers are currently restricted in Exhibit C, will INPRS provide an updated list of Restricted Brokers periodically?

    Answer: Yes, INPRS will provide this at a later date if necessary.

15. Regarding Appendix A – Sample Investment Management Agreement:
Section 37-38 – We do not have any employees in the state of Indiana, so does the drug-free policy requirements apply to our global population (other states in the U.S. and international locations)? If so, is there any exemption to the disclosure requirements if they would violate any applicable laws based on our locations?

    Answer: INPRS allows some flexibility for employers subject to other jurisdictional treatment of illicit drugs. INPRS will request drug-free workplace policies from such employers and representations regarding consistent application and enforcement of such policies.

Track Record Questions

16. In regards to minimum criteria #3, the portfolio manager of our EMD strategies has a track record across 3 different firms since 2006 (i.e. >10 years). Does this requirement refer strictly to the current investment management entity, or to the PM/team?

17. Our firm has invested in the emerging markets debt markets for over 10 years when we consider our core plus mandates, however, we established a dedicated capability less than 10 years ago. Would we still qualify under requirement #3?

18. Our EMD team has worked at our firm for over 7 years, and prior to joining our firm they worked together at another firm for over 10 years – i.e., they have worked together for over 17 years. As the team has invested in the emerging markets for more than 10 years, with an established, dedicated capability, would we qualify under requirement #3?

    Answer (Questions 16-18): Yes, these scenarios described would be satisfactory to INPRS.

19. If a firm's emerging markets debt GIPS compliant track records will reach 7 years during the course of the search (one strategy at 6/1/20 and another at 12/31/20), will they qualify under requirement #4?

    Answer: Yes, this would be acceptable to INPRS.

20. Will a Supplemental track record, from a previous firm, demonstrating our team's experience, be considered as part of a team's track record in emerging markets debt for this mandate?

Answer: Yes, this would be something we would like to see included and would consider as part of this search.

21. If a team's longer term track record is from public data, but not GIPS compliant, can it be taken into consideration for this search?

Answer: INPRS's team prefers to see a GIPS compliant track record, to ensure that all submissions are evaluated on equal footing.

22. Does the "minimum track record of ten years acting as a manager of emerging markets debt" refer to the emerging markets debt platform or the specific EMD portfolio being proposed?

23. Does the "firm and senior team must have a performance track record for managing emerging markets debt in compliance with Global Investment Performance Standards ("GIPS") that extends at least seven years" refer to the emerging markets debt platform or the specific EMD portfolio being proposed?

Answer (Questions 22-23): INPRS is ok with the track record referring to the entire EMD platform, not any specific portfolio.

Miscellaneous Questions

24. In Appendix C, Section VII, Question 2, AUM for the strategy's largest accounts is requested as of June 30, 2019. Confirming that AUM as of December 31, 2019 is preferred for the 2019 time period?

25. In the RFP on page 53, question 2, you have asked for the five largest separately managed accounts as of June 30, 2019. We are happy to provide this. Are you interested in receiving all information/data for the RFP as of this date as well? Would you prefer to receive more recent information – i.e., as of 12/31/19?

26. Section VII, Question 2 – Should the requested information (five largest separately managed accounts) be provided as of June 30, 2019 or a more recent date, such as December 31, 2019 or March 31, 2020? Should this date apply across all data/information requested in the RFP?

Answer (Questions 24-26): 12/31/2019 is acceptable for AUM figures.

27. As a private company, we would be happy to provide financial information once INPRS has signed an NDA with us. Can we assume that INPRS would be amenable to signing an NDA?

Answer: Yes, INPRS will sign an NDA if that is necessary.

28. Could you provide us with an estimate of the size of the assets which would be deployed to 1 – 2 new managers?

Answer: INPRS currently has approximately $700mm managed by two managers for 50/50 EMBI and GBI-EM benchmarked strategies. INPRS's preference is to have two firms manage these assets. Incumbent managers have been invited to submit proposals to the RFP as well but will be evaluated in the same manner that non-incumbent managers are.

29. We have managed active Emerging Debt for over 25 years and offer separate External and Local debt strategies in commingled vehicles with AUM of $5.7 billion and $1.4 billion, respectively, that can be combined into a blended "SMA of funds" or invested in on a standalone basis in the commingled vehicles. Would this arrangement be acceptable for the mandate?

Answer: This would be acceptable.

30. Will INPRS initially allocate $500M to the selected manager(s) or will the mandate have the potential to grow to $500M over time?

Answer: INPRS is unlikely to allocate $500mm to a single manager once this mandate search is complete. Over time, there is potential for an investment to grow that large, but that will depend on manager performance and overall plan growth.

31. Is this a replacement search?

Answer: This search is to help INPRS evaluate the relative strengths and weakness of various managers to ensure that INPRS maintains best-in-class managers.

32. We are planning on proposing a separate account, in line with INPRS's preference, however would INPRS have any desire in seeding a CIT vehicle for the same strategy proposed?

Answer: INPRS is not interested in seeding a CIT vehicle at this time.

33. Are managers allowed to propose more than one product/strategy? If so, should managers address multiple products in one response? (Or submit separate proposal through InHub, if that is an option?)

Answer: Managers are welcome to submit multiple strategies. Please include them in a single response, with clear delineations between the strategies.

Regarding Appendix A – Investment Policy Statement (Exhibit E):

34. Please share INPRS materiality threshold and current frequency of reporting for the following: "Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Investment Staff and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions."

Answer: Rather than an attempt to define "materiality," the expectation is that the manager would use reasonable metrics to determine "materiality." If there is any doubt, the manager should inform INPRS to determine the most appropriate next steps.

35. When is the next asset-liability study scheduled to be conducted and please share any target return expectations from historic or current studies, if available. If available, please include the history and current allocations to EM debt.

Answer: INPRS is currently undergoing an asset-liability study. It was scheduled to conclude in June 2020 but has been pushed back due to COVID-19. INPRS currently has a 3.0% allocation to various EMD strategies and we do not expect material changes to that in this on-going A/L study.

36. Does INPRS anticipate any additional investment constraints stemming from the "Local Public Safety Pension Relief Fund Policy" that we should factor in our response?

Answer: Not at this time.

Regarding Appendix C – Questionnaire:

37. Section III, Question 22 – We note that the question asks about growth of assets for the proposed mandate. Is the question meant to cover historical or forward-looking periods?

Answer: Historical periods.

38. Section VI, Question 7 – Should the requested information (portfolio holdings in local currency vs hard currency vs corporates) be provided on a monthly or quarterly basis?

Answer: INPRS prefers monthly data.