

State of Utah
School and Institutional Trust Fund

Request for Proposals:
Investment Consulting Services

October 2015

INTRODUCTION

PURPOSE

The State of Utah School and Institutional Trust Fund (SITFO) is seeking market information and proposals relating to general investment consulting contractors and services. This search for investment consulting services is by invitation only.

BACKGROUND

In 1894, shortly before Utah became a state, Congress created a land trust including one-ninth of the land of the state to support our public schools. Today, schools still have 3.3 million acres of surface ownership and 4.4 million acres of mineral rights scattered around the state. The lands are managed by the School and Institutional Trust Lands Administration (SITLA). All net revenue is saved in the School Fund.

The School and Institutional Trust Fund Office (SITFO) was created in 2015 to manage the School Fund and related entities' more than \$2 billion. There will be 3 full-time staff managing the portfolio and there is a 5 person Board of Trustees. There are 11 accounts of much smaller size which are invested alongside the School Fund with slight variations in asset allocation. Since all 12 accounts are managed by one entity, and the School Fund is 90%+ of the assets, the intention is to be treated as one client by the investment consultant(s) with very limited services outside of performance reporting for the 11 additional accounts.

At present the asset allocation targets are 47% to domestic equity, 23% to fixed-income, 20% to international equity and 10% to real estate. Most of the assets are passive or "core" in nature and an emphasis on US exposures.

Presently, only the dividends and interest of the School Fund are available for distribution. This is relevant to our current asset allocation and spending policy. We will seek changes to this constraint in the near future.

The Board meets 9 times a year. SITFO plans to make the following changes in the immediate future:

- Hire investment consultant(s)
- Hire custodian bank
- Revisit asset allocation
- Revisit investment policy
- Revisit asset class structures/implementation

To help with benchmarking expectations and referencing for pricing please use the following assumptions as a sample work plan:

- Year 1
 - o Custodian search (new custodian with emphasis on how to get most of custodian, sec lending, analytics, reports, etc.)
 - o Asset allocation framework and portfolio structuring considerations

- Investment policy revision
- Review structuring options for traditional exposures
- Take initial steps on traditional exposures
 - Revisiting passive options in light of asset allocation, custody search, and income orientation (consider alternatives to market cap weighting, adding asset classes, etc.)
 - 1-2 Income oriented exposures potentially added
- Year 2
 - Finalizing passive structure
 - 1-2 traditional/alternatives manager searches
 - Review approaches to structuring alternatives exposures
 - Follow-up from asset allocation with specifics to structuring and implementation
- Year 3
 - Mostly focused on alternatives
- Ongoing
 - Monthly “flash” performance reports (brief report)
 - Quarterly comprehensive performance reports (with risk analytics and attribution, etc.)
 - Monthly/Quarterly updates/investment opportunities discussion with staff (teleconference)
 - Annual (in-person) attendance – 2-3x Board meetings + 2-3 other visits = 6 annually
 - Annual hosting of staff – 1-2x year staff visit onsite

Future Steady State Structure (*conceptual*)

- Defensive/High Quality Fixed Income 10-20%
 - Passive/Strategic Beta/Limited Active
- Income Oriented 10-20%
 - Strategic Beta/Active
- Public Equity 15-30%
 - Passive/Strategic Beta/Limited Active
- Real Assets 10-20%
- Hedge Funds 10-20%
- Private Equity 10-20%

Investment consultants would be expected to communicate regularly by phone or email. Travel to Board meetings or to meet with SITFO staff is expected to be limited.

SERVICES REQUESTED

It is SITFO's intention to contract with one or more investment consultant(s) to perform/provide one or more of the following services:

- 1) Custody Search (early in 2016)
- 2) Recommendation of Investment Policy & Asset Allocation Strategy (including Risk Budgeting)
- 3) Strategic & Tactical Investment Opportunity Research (advice on rebalancing, timing of new investments, prioritizing new mandates, opportunistic ideas, etc.)
- 4) Performance Reporting and Attribution, Portfolio Risk Analytics ("flash" monthly report & comprehensive quarterly reports with attribution and risk analytics)
- 5) Investment Manager Monitoring and Reporting (likely part of performance reporting or manager research effort)
- 6) Investment Manager Research and Structuring for Traditional Markets (manager searches, asset class structuring)
- 7) Investment Manager Research and Structuring for Alternatives (prefer a custom account/outsourced/discretionary type of relationship with direction and input from SITFO)

SITFO may consider utilizing more than one investment consultant if two or more firms demonstrate contrasting strengths. Therefore, if desired by the respondent, please propose separate or unbundled bids for any of the items listed above, as well as single/bundled bids for some or all of the items above. Please communicate your intentions clearly in the proposal and outline several options in the fees section.

We plan to develop relationships that will help us implement an efficient overall program. Efficient in terms of return for risk, fees for return, and institutional operations as an extension of our staff. We have high objectives and look forward to meeting those with the assistance of creative and thoughtful investment professionals. SITFO expects that their consultant(s) provides:

1. Access to a higher level of expertise than is currently available from staff and the members of the Board who are investment professionals with significant experience.
2. Access to independent thinking, ongoing research, and objective opinions.
3. Access to information and tools SITFO isn't availing themselves of.
4. Sharing the burden of fiduciary responsibility owed to the Fund's beneficiaries

RESPONSES

Please email petermadsen@utah.gov to confirm your interest before October 31st.

SUGGESTED TIMELINE (Specific dates for interviews and onsite meetings will be coordinated as soon as possible)

RFP Release	October 27, 2015
Proposers' Questions	October 31, 2015
Responses to Proposers	November 5, 2015
Responses Due	November 29, 2015
Phone Interviews	December 7 – 15, 2015
On-site Visits	Month of January 2016
Selection	Feb or March 2016

SITFO will use their best efforts to adhere to the time schedule. However, we reserve the right to amend the time schedule as necessary. We will do our best to communicate clearly regarding any changes in the timeline. SITFO reserves the right to cancel or postpone the RFP at any time, to award no contract, and reserves the right to correct inaccurate awards resulting from clerical errors.

SUBMISSION OF WRITTEN QUESTIONS

Questions regarding the RFP may only be submitted via e-mail to Peter Madsen (petermadsen@utah.gov) no later than (October 31, 2015). All proposers who have confirmed interest will receive a copy of all of the questions and answers submitted. SITFO may amend this RFP based on questions submitted. The questions and answers will be anonymized.

Please submit proposals electronically as PDFs. Please itemize reports/samples and label as exhibits or appendix items with self-explanatory and consistent file names. Please use page numbers and headers/footers throughout all documents so as to clearly identify the proposer and the item. Please refer to the section, question number, and quote the question preceding each answer.

SITFO may reject any or all responses and may waive any immaterial deviation in a response. SITFO reserves the right to reject any or all responses for any reason, in their sole discretion. SITFO shall not be liable for any costs incurred by firms preparing or submitting a response.

PUBLIC RECORDS

The Government Records Access and Management Act (GRAMA), UCA 63G-2-305, provides in part that:

The following records are protected if properly classified by a government entity:

(1) trade secrets as defined in Section 13-24-2 if the person submitting the trade secret has provided the governmental entity with the information specified in Section 63G-2-309 (Business Confidentiality Claims);

(2) commercial information or non-individual financial information obtained from a person if:

(a) disclosure of the information could reasonably be expected to result in unfair competitive injury to the person submitting the information or would impair the ability of the governmental entity to obtain necessary information in the future;

(b) the person submitting the information has a greater interest in prohibiting access than the public in obtaining access; and

(c) the person submitting the information has provided the governmental entity with the information specified in Section 63G-2-309;

* * * * *

(6) records the disclosure of which would impair governmental procurement proceedings or give an unfair advantage to any person proposing to enter into a contract or agreement with a governmental entity, except that this Subsection (6) does not restrict the right of a person to see bids submitted to or by a governmental entity after bidding has closed;

Pricing may not be classified as confidential or protected and will be considered public information, after award of the contract.

GRAMA provides that trade secrets, commercial information or non-individual financial information may be protected by submitting a Claim of Business Confidentiality.

To protect information under a Claim of Business Confidentiality, the firm must:

1. Provide a written Claim of Business Confidentiality at the time the information (response) is provided to the state, and
2. Include a concise statement of reasons supporting the claim of business confidentiality (UCA 63G-2-309(1)).
3. Submit an electronic “redacted” (excluding protected information) copy of your RFP response. Copy must clearly be marked “Redacted Version.”

A Claim of Business Confidentiality may be appropriate for information such as client lists and non-public financial statements. Pricing and service elements may not be protected. The claim of business confidentiality must be submitted with your response on the form which may be accessed here:

<http://www.purchasing.utah.gov/contract/documents/confidentialityclaimform.doc>

An entire response cannot be identified as “PROTECTED,” “CONFIDENTIAL” or “PROPRIETARY” and may be considered non-responsive if marked as such.

Offeror acknowledges that its proposal or redacted copy will be made public upon the State’s receipt of a GRAMA request. Offeror will not be notified of any GRAMA request made to the State for offeror’s proposal. If offeror submits a redacted copy then the State will respond to a GRAMA request for offeror’s proposal with offeror’s redacted copy. However, if offeror fails to submit a redacted copy then the State will respond to a GRAMA request with offeror’s proposal, which will result in offeror’s protected/proprietary information, if any, being made public. Contractor acknowledges that notations in the header, footer or watermark of the proposal will not be considered sufficient to constitute a request for non-disclosure of protected/proprietary information.

All materials submitted become the property of the State. Materials may be evaluated by anyone designated by the State as part of the RFP response evaluation committee. Materials submitted may be returned only at the State's option.

SCORING

Responses will be scored using the framework below. This process though ultimately qualitative will follow a structured and objective outline. We will attempt to judge the overall quality of the firm with an overlay of looking for philosophical fit and alignment with our objectives. We will judge the itemized/unbundled offerings in scale relative to their category of service proposed.

	Step 1 (Written)	Possible	Step 2 (Conf Calls)	Possible	Step 3 (Onsite)	Possible	Total	Total Possible Score
Qualifications (<i>Meets, Doesn't Meet</i>)		<i>Meets</i>						<i>Meets</i>
Executive Summary (<i>Overall firm philosophy, culture, and proposed working relationship in alignment w SITFO needs</i>)		7.5		5		7		19.5
Consulting Firm (<i>Sustainable business, experience, staffing, minimal conflicts</i>)		5						5
Organization		2.5						2.5
Employees		2.5						2.5
Capabilities (<i>Strength and breadth of analysis, independent thinking</i>)		30		5		8		43
Asset Alloc & Inv Policy Analysis (<i>risk support, strategic/tactical recommendations</i>)		10						10
Inv Mgr Research (<i>types of managers, range of coverage across and within asset classes</i>)		10						10
Other Research (<i>reporting, capital markets, product trends, custody, etc</i>)		10						10
Performance Reporting (<i>Quality of attribution, analytics, risk measurement, timing</i>)		5		5				10
Clientele/References						7		7
Fees & Servicing (<i>Overall fit as well as cost for services relative to value offered</i>)		7.5		5		3		15.5
Fees		4.5						4.5
Servicing		3						3
TOTAL		55		20		25		100

QUESTIONNAIRE

Please limit your response to this questionnaire to no longer than 65 pages in total (including the original RFP text). Responses to requests for sample reports or exhibits will **not** be included in the page maximum, as noted throughout the RFP for specific questions.

Please type your responses in the same order as the questionnaire, listing the heading first (i.e., “qualifications”, “executive summary” and “general questionnaire”), repeating the headers, question number and text, followed by your answer.

QUALIFICATIONS

The following qualifications will help SITFO determine initial suitability. Please explain how you meet each of the following qualifications:

- 1) The firm has received the RFP directly from SITFO (firms who have not received a copy may request to receive a copy directly from petermadsen@utah.gov)
- 2) The firm consults to *greater than 75%* institutional investors as determined by number of clients, with at least one client of \$2bn or greater in total assets.
- 3) In order to bid for bundled/full retainer, the firm should have full-service investment consulting capabilities sufficient to cover all services listed above.
- 4) Proposers for unbundled/individual services have dedicated staff for which they are bidding
- 5) Proposals including research services must have dedicated research staff.
- 6) The firm should be an innovative practitioner or independent thinker in the industry.
- 7) The firm is a registered investment advisor with the SEC.

EXECUTIVE SUMMARY

Please use the outline below as a type of cover letter to help us position your firm and proposal. Please be consistent with an executive summary manner (i.e. brevity, bullet points.). This should be tie in with your final content as similar elements will be addressed further elsewhere.

- I. Intention of Proposal (unbundled, bundled, discretionary element, etc.)
- II. Firm Culture
- III. Independent Opinions, Investment Convictions, Proactive Recommendations
- IV. Weaknesses and Strengths
- V. Open Comment (We simply want to allow for opportunity to address what hasn't been asked in the RFP)

A. CONSULTING FIRM

- 1) What is your firm's complete (legal) name and contact info?
- 2) Please provide a brief history, from inception, describing your firm and any parent organization. Within the past three years, have there been any significant developments in your organization, such as changes in ownership, restructuring, or personnel reorganizations? Do you anticipate future significant changes in your organization? If yes, please describe.

Organization, Ownership, and Independence

- 3) Describe the ownership structure of your organization giving specific details with regard to any parent or affiliates. Include an organizational chart and a description of the firm's distribution of ownership interest (org chart not included in total page allowance).
- 4) List and briefly describe the line(s) of business of your firm, any parent organization and any affiliated companies. Include the percentage breakdown of revenues from each line of business? What percentage of total, after-tax profit is derived from each line of business?
- 5) Provide copies of all financial statements, including those for any affiliates, as required for filing with the SEC (not included in total page allowance).
- 6) Within the last ten years, has your organization or an officer or principal been involved in any business litigation or other legal proceedings relating to your consulting activities? If so, provide an explanation and indicate the current status or disposition.
- 7) Please describe the level of coverage for errors and omissions insurance and any fiduciary or professional liability insurance your firm carries. List the insurance carrier(s) supplying the coverage.
- 8) Disclose any other affiliations, strategic alliances, joint ventures, and referral arrangements, if not previously disclosed in this RFP.
- 9) Has your firm adopted the CFA Institute Code of Ethics and Standards of Professional Conduct?
- 10) Explain in simple terms how you manage any conflicts of interest or the potential for such.
- 11) Provide a copy of your firm's code of ethics, compliance, soft dollar, and conflicts-of-interest policies or policy statements. (Note: the policies provided will

be excluded from the page maximum.)

- 12) Please disclose in detail, any business that your firm or any affiliate of your firm does with investment managers. If retained by SITFO, will you agree to disclose this information on an ongoing basis? Based on this disclosure, or any other basis, are there any potential conflict of interest issues your firm would have in serving SITFO? If so, describe in detail.

Employees

- 13) Please state name and title of senior staff hires and departures over the last three years.
- 14) Please provide a detailed organizational chart of the firm's research effort(s) to display years of experience, years with firm, and responsibilities and coverage (please include all research e.g., manager research, market research, or other research) (the org chart will not be counted against page maximum)
- 15) Do any of your investment professionals have portfolio management experience at an investment management firm, pension plan, or similar? Please discuss.
- 16) Describe your firm's recruitment efforts as well as compensation arrangement for professional staff. How do you source and retain talent?

B. CONSULTING CAPABILITIES

Asset Allocation & Investment Policy Analysis

- 19) Outline your approach to the development of an investment policy. Suggest any element(s) that you consider best practice that might not be included in a typical investment policy.
- 20) Discuss the asset allocation models you employ and how you seek to compensate for any shortcomings. (Do you look at factor exposures? Do you include fundamentals? Do you overlay dynamic correlations or non-normal distributions? Do you seek to minimize contribution to risk? How do you account for illiquidity? etc.)
- 21) How does your firm develop asset class return assumptions? Provide a sample asset allocation report in the appendix of your response, including current capital market return/risk/correlation assumptions over specified time horizons. (Note: the number of pages of this sample will be excluded when determining response compliance to the page maximum.)
- 22) Do you provide guidance regarding proactive adjustments to or from target allocations? Discuss this and any form of rebalancing you recommend to your clients.

- 23) How do you incorporate the spending policy in the asset allocation process?
- 24) How do you evaluate and monitor total portfolio risk? (Do you perform stress testing? Risk budgeting? Scenario analysis?) At what stage is this included in the work flow? In the asset allocation, performance reporting, etc?
- 25) Describe the firm's (or the service team's) preferred approach for portfolio structure post asset allocation. (Core – Satellite? Active or Passive? Tracking error based? Alternatives within traditional asset classes? Etc.)
- 26) Outline your process for maintaining and providing a continuous review of investment policy, asset allocation and portfolio structure and how this is communicated to clients. You may include a sample report in addition to your response. (Note: the number of pages of this sample will be excluded when determining compliance to the page maximum.)

Investment Management Searches

- 27) Please describe your manager research philosophy. How do you expect to add value?
- 28) Please give an overview of your initial/primary criteria for investing with a manager or the criteria that you would rely on to exclude an investment manager in an early stage of the process.
- 29) How do you go about rating or ranking investment managers? Please define the rankings and explain how they are used in practice.
- 30) How are managers introduced into your ranking process or approval list? How many new managers are (added) approved or given full ranking treatment each year on average? How many managers do you recommend termination on average per year?
- 31) Do you work with small or emerging managers? Please define what this means to your firm. Please also describe how you work with small or emerging managers and give examples of recommendations.
- 32) Please include sample manager search recommendations for the following: traditional long only manager; a manager you would consider non-traditional; and any other type of manager you'd like to use to highlight your capability. (The number of pages of this sample will be excluded from the page maximum.)
- 33) Please include sample manager research write ups or due diligence reports for the following: traditional long only manager; a manager you would consider non-

traditional; and any other type of manager you'd like to use to highlight your capability. (The number of pages of this sample will be excluded from the page maximum.)

- 34) What alternative asset classes or sub-asset classes are covered by your research efforts? Which are not covered?
- 35) Please briefly outline your offerings for advising and servicing the alternatives segment of the portfolio. Do you provide in-house fund of funds? Do you provide custom accounts with or without discretion? Etc.
- 36) Please explain your approach to hedge funds.
- 37) Please explain your approach to private equity.
- 38) Please explain your approach to real assets (includes real estate, if not separate and distinguish please).
- 39) Do you work with managers who provide co-investment opportunities?
- 40) Do you recommend investing in secondaries? Please explain.
- 41) Does your firm maintain an in-house database of investment managers? If not, what vendor provides this information to you? What asset classes are covered in this database? How many managers, by asset class and subcategory, are contained in the database? Do you, or your does your vendor, charge direct or indirect fees for investment managers to be included in your firm's database?
- 42) If not included previously, please provide brief bios for all manager research staff. (these pages not to be included in the page maximum)
- 43) Describe your firm's policy regarding frequency of on-site manager visits. Describe their role in the manager search process.
- 44) How many manager searches have you completed within the last 12 months?
- 45) How do you measure the success of your manager recommendations?
- 46) Do you charge investment managers any direct or indirect fees when they are successful in manager searches that you conduct on behalf of your clients?
- 47) Describe your firm's involvement in preparing contractual guidelines for individual investment managers. Do you negotiate fees on behalf of your clients?

Other Research

- 48) If not included previously, please provide brief bios and org chart for research staff who do research other than manager research. (These pages not to be included in the page maximum)
- 49) Please describe research staff roles and responsibilities for those who are not dedicated to manager research. Describe the internal structure and organization of your research department. If no separate department exists, describe how you develop and provide topical research to your clients (outside of manager research specific content).
- 50) Please describe the type and frequency of research that would be provided.
- 51) Please outline your process for monitoring and reporting on market trends, adoption of new strategies, changes in legal or other dynamics of relevance to an institutional investor. Describe the manner in which external resources are used and itemize the sources of information used.
- 52) Include in your response the last three, research oriented reports generated by your firm. (Note: the number of pages of this sample will be excluded when determining compliance to the page maximum.)
- 53) Please also list the last three proactive recommendations made to your clients based on your firm's research.
- 54) Do you provide any customized computer-based analytical tools, or web access, to your clients? If so, please describe.
- 55) Please describe your custody search capabilities. How many custody searches have you performed in the last 3 years? Please provide sample output from a recent custody search for a client similar in size or type.

C. PERFORMANCE REPORTING

- 56) Provide a comprehensive review of performance reporting and analytical services you offer for an individual manager and for the total portfolio. Is this service performed by your firm or through an outside vendor? If you outsource, please identify the vendor and detail all quality controls in place. Please provide sample reports that will demonstrate the full range and capability of your firm. (These sample reports will be excluded from the page maximum)
- 57) Please describe the deadlines within you can deliver i) monthly flash reports and ii) quarterly comprehensive reports

58) Describe any online capabilities you may offer regarding portfolio reporting or monitoring.

D. CLIENTELE

Current Clients

(Responses to questions in this section will not be included against the page maximum)

59) Distribution of clients by asset size and category (as of June 30, 2015)

60) Do you have other clients similar to SITFO? (Permanent fund, large land related asset base, etc.) What type of work, projects specific to this profile have you performed that may also be relevant to SITFO?

61) If not discussed elsewhere, please describe how your endowment/foundation experience is relevant to us referencing how we've described ourselves and our objectives.

62) Please provide at least two references for your services as per your proposal to work with SITFO including the name, size, and inception of the engagements, and contact information:

- (a) full retainer, general consulting
- (b) performance measurement only
- (c) asset allocation only consulting
- (d) traditional manager searches only
- (e) consulting alternatives

Former Clients

63) Please provide a list of clients who have terminated your firm's services in the last three years. Please describe each termination including the services that were being provided.

E. FEE SCHEDULE and SERVICING

- Responses to questions in this section will not be included against the page maximum

64) Please describe your philosophy/approach to account servicing.

65) Please describe how many clients you have per investment professionals and how many clients the proposed team is servicing.

66) Please describe the proposed service team and include the individuals' roles and responsibilities i) at the firm and ii) on the team. What office will they work from?

67) We anticipate the contract will be let on a three-year basis, we also expect to consider renewal for two additional two-year periods.

- a. Please provide the anticipated pricing in annual terms for each of a possible seven year relationship.
- b. Please also propose any other suggested pricing structure such as itemized, full retainer, combination of retainer and discretionary on alternatives, etc. We are willing to be open-minded about the nature of your proposal, so please be thoughtful and creative and suggest various structures for our consideration.

Please detail the scope of services to be provided under any arrangement and provide quotes for any additional services suggested and not accounted for in this questionnaire.

68) SITFO will consider utilizing more than one investment consultant if two or more firms demonstrate contrasting strengths, or if there is a gap in services offered. Therefore, if desired by the respondent, SITFO will accept separate or unbundled bids for any of the services requested (i.e., if a firm wishes to bid only on one item, it may do so).

69) For alternatives segments, please advise regarding the fees associated with a segregated and/or discretionary approach. For example, if your firm offers fund of funds for accessing alternatives, please inform us of the fee schedule. If your firm provides custom account management or discretionary services please describe.