District of Columbia Retirement Board
Investment Consulting RFP – Responses to Questions
February 20, 2015

1) Can you please share the impetus behind the issuance of this RFP?

   In line with procurement best practices, the Board generally re-bids investment consulting service contracts every three to five years.

2) Can you please specify how long each of your existing investment consultants have been retained?

   Meketa started working with the Board in 2010 and Cliffwater in 2012.

3) Are your current investment consultants retained on a discretionary or non-discretionary basis?

   The current consultants are retained on a non-discretionary basis.

4) Is it the goal of the Board to hire a consultant to act as a fiduciary on a discretionary basis as defined under ERISA 3(38) or non-discretionary basis as defined under ERISA 3(21)? Will both designations be considered?

   The Board will retain consultant/s to act as fiduciaries on a non-discretionary basis, as defined under ERISA 3(21).

5) How many onsite manager due diligence visits is the investment consultant expected to attend on an annual basis?

   This will depend on a number of factors which are difficult to estimate, such as the opportunity set of managers in the market in any given year as well as the investment consultant's recommendations with respect to manager replacements. However, in the past, each consultant participated in roughly one to two dozen on-site meetings per year.

6) When was the last asset liability study conducted?

   The last asset liability study was completed by Meketa in 2010.

7) Are there any new initiatives the Board or Staff are considering in the next 12-18 months?

   The Board has issued an RFP for custody services, which may result in the change of custody bank in early 2016. In addition, the Board plans to complete an asset-liability study, review its absolute return program structure and study the merits of internal asset management once the investment consulting RFP has been completed.

8) Please provide more background on the legacy assets (type of funds, number of funds, plan to manage/monitor) as discussed in attachment G that total $217m of commitments.

There are a total of three active private equity funds in the Legacy Private Equity Program:

- Blackstone Capital Partners IV ($14.1 million commitment)
- Warburg Pincus Private Equity Fund VIII ($15 million commitment)
- Fairview Capital Partners II ($12.4 million commitment)

The remaining funds in the Legacy portfolio have been fully liquidated over time.

The consultant will work with Staff to monitor these funds through their eventual liquidation.

9) Describe your investment approval process and responsibilities / functions of the board, staff and consultants.

The Board of Trustees acts as the ultimate fiduciary and investment decision-making body. Investment decisions are made by the Board's Investment Committee (IC), which is a "committee of the whole," i.e., it includes all 12 Trustees. Six of the 12 Trustees are elected by the respective professional groups (police officers, firefighters, and teachers), three are appointed by the Mayor, and the remaining three are appointed by the City Council. Trustees serve for four year terms and there are no term limits.

The Staff works closely with the Board and investment consultant/s as well as existing investment managers. The Staff views the investment consultant/s as an extension of itself, i.e., there is close collaboration and regular interaction by phone, email, and in person. Prior to IC meetings, Staff and investment consultant/s work closely together to prepare investment recommendations and the related analysis. Outside of IC meeting preparations, Staff works with the consultant/s in jointly monitoring asset allocation and existing managers performance as well as identifying and accessing prospective managers (with a focus on the private equity and real assets programs).

Strategic asset allocation decisions are made by the IC at the time of the asset/liability study (generally every three to five years). Rebalancing decisions (within pre-established target ranges) are made by the CIO in collaboration with investment consultant/s.

Investment manager selection and termination decisions are made by the IC based on the recommendation of the investment consultant/s and CIO. Traditional investment manager searches typically result in one or two finalists presenting to the IC. Alternative investment managers are not required to present to the IC. Recommitment decisions for private investment managers within the pre-established commitment budget are made by the CIO (in consultation with the Executive Director and IC Chair). There is no RFP requirement for manager searches. The legal review process is generally handled by an outside law firm (currently Morgan Lewis).

10) What changes do you anticipate in how you interact / utilize your alternatives consultants going forward?

We view the investment consultant/s as an extension of our internal Staff and plan to have an interactive relationship with the Board's consulting team.

11) Please disclose how much Cliffwater was paid in 2012, 2013 and 2014.

Please review the 2012-2013 CAFR posted on the Board's website. The 2014 CAFR is scheduled to be released in the next 60 days.

12) Describe any limitations (geography, strategy, sector, etc.) that are expected to influence the opportunities you will target for your private equity, real assets and absolute return strategies.

The Board's objective is to build a globally diversified investment program within the following constraints:

1. Availability of and access to high-quality managers
2. Attractive market environment
3. Strong fit with existing portfolio.

Please see also the responses to questions # 14 and 31.

13) Please describe the depth of transparency required with respect to absolute return investments.

The Board and Staff desire to receive information sufficient to understand the risks taken by the absolute return manager and to evaluate the fit of the investment within the overall investment portfolio.

14) Please describe the board's philosophy regarding manager diversification and concentration limits for private equity, real assets and absolute return strategies.

The main objective is to minimize the adverse impact of any particular investment on the overall portfolio and to diversify investments across managers, vintage years, geographies, and sectors.

For absolute return investments, individual funds may not comprise more than 20% of the Absolute Return Program once it is fully invested. For private investments, individual funds may not comprise more than 10% of the Private Equity (or Real Assets) Program strategy once they are fully invested.

Targeted commitment levels to private investment funds are driven by the desire to allocate meaningful amounts of capital while maintaining sufficient diversification by manager, strategy, vintage, geography, and industry. The current commitment targets are $25 million for real assets and $30 million for private equity funds.

15) We are specialists in Real Assets investment consulting only. We would assume that we could help inform DCRB's Asset Allocation across the entire DCRB portfolio but would not be primarily responsible for this discipline and therefore should not respond to the RFP questionnaire questions 27 through 32 and, generally, should not respond to questions within the questionnaire which are unrelated to Real Assets investment consulting services. Please advise.

    Correct. You should only respond to the sections that you feel are applicable to your area of expertise.

16) What is the current compensation for the DCRB's existing investment consultant for Real Assets?

    There is no specific fee for the real assets mandate as it is part of the overall alternatives investment consulting contract with Cliffwater.

17) Why are you conducting a search at this time? How long have you been working with your current consultant?

    Please see the answer to questions #1 and 2.

18) What is the likelihood that you will switch consultants?

    The Board views each RFP process as a chance to reevaluate its existing vendors and will make a decision based on the relative merits of the received responses.

19) What is working well with your current advisors? What could be improved?

    The Board will not respond to this question.

20) Are you seeking an advisor for co-investments or direct investments as well as fund investments?

    The Board doesn't have a co-investment or direct investment program at this time.

21) Would it be possible to receive a copy of DCRB's investment policy statement?

The Investment Policy Statement is under review.

22) How would you describe the Committee structure and decision making process?

Please see answer to question 9 above.

23) Does the Board and/or Investment Committee currently approve investment decisions (e.g., manager hiring) as well as policy decisions? Or does the Board delegate manager selection decisions and if so to whom?

Please see answer to question 9 above.

24) How many full time staff members are dedicated to investment oversight?

There are currently three full-time investment professionals supported by two administrative personnel.

25) How many staff are dedicated to each asset class (e.g., private equity, real assets, absolute return)?

Staff members works as generalists, i.e., each Staff member is involved across all asset classes.

26) Can you provide detail on the legacy investments the advisor would be expected to monitor?

Please see answer to question #8.

27) Are there any restrictions on certain types of investments?

Yes, there are two major restrictions.

The Board may not invest in companies with material business operations in Iran and Sudan, although there are exemptions for commingled funds where the fund manager doesn't offer alternative investment vehicles that exclude these types of companies.

The Board may not directly invest in real estate properties located in D.C., Virginia, or Maryland. It may invest in such properties through a commingled investment fund with other investors.

28) Are there any co-investments in the existing private equity portfolio?

No.

29) On average, how many due diligence projects are performed each year by asset class? Do you expect these numbers to be any different going forward?

Please see answer to question #5.

30) What issues are under current consideration by the staff and/or Committee?

Please see answer to Question #7.

31) Are there ESG criteria for all or a portion of the portfolio? If so, please explain.

The Board passed an ESG policy in November 2013, which applies primarily to publicly-held investments. However, the Board and Staff feel that ESG factors are important to consider in any investments and are working to extend the evaluation of ESG risks across the entire investment portfolio from the initial due diligence through on-going monitoring.

32) What are the portfolio benchmarks currently?

A copy of the Fourth Quarter Investment Performance Summary, which includes benchmark information, is available on the Board's website: (http://dcrb.dc.gov/publication/quarterly-fund-summary-period-ending-december-31-2014).

33) What is DCRB's philosophy on the role of hedge funds in the portfolio?

Below is an excerpt from the Board's Investment Policy Statement for Absolute Return Investments, which addresses the role of hedge funds in the portfolio:

The investment objective of the Absolute Return Program is to utilize a portfolio of hedge funds to achieve positive returns with a degree of independence from movements in equity and fixed income markets and independent of traditional performance benchmarks.

Hedge funds represent a distinctive investment style that is different from traditional, long-only funds. A fundamental difference is that hedge fund managers emphasize absolute, rather than relative returns, and they may also use a wider range of investment techniques, such as leverage, short selling and derivatives to achieve their objectives.

A portfolio of hedge funds is expected to deliver an absolute return with a risk level between that of stocks and bonds with a Sharpe ratio of 0.5 or better. The portfolio should also have a low correlation with other asset classes (i.e., 0.7 with stocks and 0.0 with bonds) and *therefore help diversify the total fund portfolio. As such, the objective of the Absolute Return Program is to reduce the volatility of the total fund while continuing to maximize returns in a variety of market environments.*

Given the above investment objectives, the performance of the Absolute Return Program will be compared against the following benchmarks:

- *Over the long-term (trailing 5-year periods), performance of the Absolute Return Program is expected to exceed 3 month LIBOR by 500 basis points, net of fees and expenses.*
- *Over the short-term, performance of the Absolute Return Program is expected to exceed the HFRI Fund Weighted Composite Index, net of fees and expenses.*

34) Do you expect to make additional commitments to hedge funds?

The Board is not presently planning on any additional absolute return commitments until the completion of this RFP.

35) On average, how often would you expect your advisor to meet with managers individually or in partnership with Staff?

Please see answer to question #5.

36) How often would your advisor be expected to attend Investment Committee meetings in person?

Please see the RFP document, page 5.

37) Does your advisor do the initial screening/gatekeep all funds or is this done by the staff or by a collaborative effort?

The Board's preference is that the consultant would take on the majority of the initial screening. In the past, Staff has referred prospective managers to the consultant/s for their review and feedback. The Staff's objective is to work collaboratively with the consultant/s to ensure an effective and efficient coverage of the manager universe.

38) How many legacy funds would need to be monitored?

Please see answer to question #8.

39) Please detail what role your advisor has in the terms negotiation and documentation process for new investments.

The consultant is an integral part of the legal due diligence process, working closely with the Board's General Counsel and outside law firm/s.

40) Are reviews required for amendments to existing fund agreements? If yes, are recommendations required as well?

Yes, the Board will ask the consultant/s to review and provide a recommendation on all fund amendment requests.

41) How often would you expect your advisor to provide performance reporting?

At a minimum, the Board expects to receive performance reporting on a quarterly basis for all asset classes. The custodian bank provides monthly performance reports within 9 business days.

42) Is the RFP intended to be a due diligence process, or is the RFP intended to result in a change in consultants?

Please see answer to question #18.

43) Are DCRB's current consultants being considered as part of this process?

Yes.

44) What are the annual fees for the existing contract that the Board is paying to its current consultants and what are the services they provide for fees received? Are there project-related fees associated with the current arrangements that are not part of the base fee?

Please see the answer to question #11 and refer to the RFP document for the services covered by the fee.

45) Do you have any specific issues in regards to your current consultants?

The Board will not respond to this question.

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

Independent advice.

47) Do you have a preliminary schedule of the Investment Committee / Board meetings? What frequency of meeting attendance will be required of the investment consultant (e.g., monthly, quarterly)?

The Board meets on the third Thursday of every month. IC meetings are held on the same day every other month. The next IC meeting is scheduled for March 19.

48) Do you currently use fund of funds or direct funds for your alternative investments?

There is a legacy relationship with Pantheon Ventures, to which the Board outsourced the private equity program management from 2004-2009. Since 2012, the Board has pursued a direct fund investment program.

49) What is the most important investment issue your Funds are currently facing?

The most important issues are: 1) maintaining our fully-funded status, 2) facilitating relationship building with top-tier managers, including minority-owned and emerging managers, and 3) generating strong risk-adjusted net returns.