

**RESPONSES TO QUESTIONS FROM PROPOSERS
FOR SFERS' REQUEST FOR PROPOSALS FOR HEDGE FUND CONSULTING
AND FUND OF HEDGE FUNDS SERVICES**

To All Proposers: Please review this document for announcements and responses to questions posed by potential proposers regarding the Request for Proposals for Hedge Fund Consulting and Fund of Hedge Funds Services ("RFP") issued by the San Francisco City and County Employees' Retirement System ("SFERS"). The deadline to submit questions was March 24, 2015 at 5:00 p.m. Pacific Time. This document includes all timely received questions.

ANNOUNCEMENTS:

As indicated in response to question 19 below, for fund of hedge funds ("FOF") mandates, proposers shall provide fee quotes on **different asset sizes**, specifically for a portfolio of \$250 million, \$500 million, \$750 million and \$1 billion and above.

FOF proposers shall also specify any **administrative or other fees** (e.g., audit, legal, admin, line of credit fees, etc.) charged to the proposed fund in addition to the management and incentive fees, if applicable, including a description of what these fees cover and what the total administrative fees were in basis points from calendar year 2011 to 2014. FOF proposers shall provide this information in response to question 110 of Appendix A of the RFP.

In addition, FOF proposers shall include the **audited financial statements** from 2011 to 2014 for the proposed fund of hedge funds.

If a proposer is proposing a "fund of one" or a custom fund of funds, the proposer shall estimate the additional administrative or other fees (as detailed above) based on proposer's best assessment of what the proposer would expect to propose for the program for SFERS.

QUESTIONS & ANSWERS:

1. *If we intend to submit a proposal as both a hedge fund consulting firm and a fund of hedge fund manager, does SFERS prefer that we submit one response that answers for both or submit two separate responses (one for each service)?*

RESPONSE: SFERS requests a separate response for each service.

2. *Does SFERS have any guidance on the risk/return profile of the mandate, or any other details including guidelines, restrictions, etc.?*

RESPONSE: SFERS does not have any guidance on the mandate's risk/return profile, guidelines, restrictions, etc. One of the major roles of the retained firm(s) will be to assist SFERS with developing parameters such as these for the Plan's hedge fund portfolio, which is expected to grow to 5% of total assets based on current policy. Hedge funds have been added to the Plan's investment policy with the expectation that they would deliver greater returns than fixed income

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and a significant portion of public equity returns over a full market cycle (defined as a bull and a bear market), but with significantly less downside/drawdown risk than public equities. The specifics of how to accomplish this profile is to be determined with the assistance of hedge fund consultant(s)/manager(s) engaged per this RFP process.

3. *If we believe our proposal contains confidential information in certain questions, should we mark the answers as such, or does the Sunshine Ordinance not allow for any answers to be omitted to the public upon request?*

RESPONSE: Information or records a proposer deems to be “Business Confidential” should be marked clearly as such, but confidentiality is not guaranteed. See RFP Section V(B)(9). If a public records request is made for materials submitted under this RFP, SFERS would respond as outlined in RFP Section VI(I), and would evaluate any mandatory or permissive exemptions available under law. SFERS would use reasonable efforts to consult with a proposer before disclosing any information marked Business Confidential.

4. *When SFERS asks for a fee quote, do you prefer a flat dollar amount, a flat basis point amount, or a flat management fee (in dollars or basis points) with a performance fee? Also, for what asset level(s) should we price for?*

RESPONSE: SFERS expects its hedge fund portfolio to be 5% of assets when it reaches its current investment policy target, which equates to \$1 billion. The hedge fund portfolio could be split among more than one advisor for fund of hedge funds exposure; in the case of a hedge fund consultant, it is more likely although not definite that one consultant would be selected. The format of the fee quote is left to the discretion of the proposer.

5. *Question regarding the Minimum Requirement, “The Proposer shall have at least three (3) public fund clients.” Is the requirement applicable at the proposed strategy-level or at the firm level?*

RESPONSE: To satisfy this minimum requirement, the proposer must have three public fund clients utilizing proposer’s hedge fund advisory services or its fund of hedge funds services.

6. *Question regarding the Mandate. We offer our customized fund of hedge fund strategy through several vehicles. We would like to tailor our response to SFERS’ specific needs. At this stage of the process, does SFERS have any additional detail to share regarding the potential mandate size?*

RESPONSE: SFERS expects its hedge fund portfolio to be 5% of assets when it reaches its current investment policy target, which equates to \$1 billion. The hedge fund portfolio could be split among more than one advisor for fund of hedge funds exposure; in the case of a consultant it is more likely although not definite that one advisor would be selected.

7. *For questions 43 and 119 (pages 24 and 32, respectively), we are happy to provide firm revenues and the Annual Report. However, we require a signed NDA to provide the requested level of detail. In the absence of an NDA, we will provide a high level summary of revenues and financial highlights (in lieu of the Annual Report). Is SFERS willing to sign an NDA in advance of the RFP submission?*

RESPONSE: See RFP Section IV(I) regarding the applicable local public records laws; see also San Francisco Administrative Code Section 67.24(e). SFERS complies with local law, and will not

execute a non-disclosure agreement in connection with this RFP. Proposers can mark relevant sections of their responses as “Business Confidential” as outlined in the RFP, but confidentiality is not guaranteed. See RFP Section V(B)(9).

8. As outlined in Section V(B)(2), we are requesting clarification on Section VI(N) “Chapters 12B and 12C: Nondiscrimination in Employment and Benefits” as is defined under Chapters 12B and 12C of the San Francisco Administrative Code. We would like to confirm that it will be acceptable by the Plan, if such benefits are not offered to domestic partnerships at the current time, that if awarded the mandate, the proposer would have the ability to adopt such benefits.

RESPONSE: It is SFERS policy to ensure that all service providers comply with Chapters 12B and 12C. A proposer’s 12B compliance is considered in evaluating proposals. If SFERS selects a proposer under this RFP that is not 12B compliant, SFERS will work with the proposer to move towards compliance. Information about Chapter 12B and compliance forms can be found at:

<http://www.sfgsa.org/index.aspx?page=6126>.

9. Does SFERS have any more detail about its investment guidelines, risk/return objectives, liquidity restrictions or other investment constraints that you would like us to consider when responding to questions about the "portfolio that we expect to recommend to SFERS?"

RESPONSE: Please refer to the response to Question 2, above.

10. If SFERS decides to select a FoF for this mandate, will the FoFs be expected to help SFERS with direct hedge fund investments at a later stage?

RESPONSE: If one or more FOF manager is selected by SFERS as a result of this search, the potential role of a direct hedge fund portfolio (in the future) and the role a FOF manager would play in such a transition, is undetermined at this time. Further, if SFERS selects a FOF manager through this RFP, it is uncertain at this time whether SFERS would transition to a direct hedge fund program in the future.

If FOF proposers have experience in assisting clients with setting up direct hedge fund portfolios, including staff and Board education on hedge fund selection and oversight, there are questions in the RFP where they may describe that experience (e.g., questions 38 and 116 of Appendix A of the RFP).

11. SFERS asks about firms’ experience with establishing policy guidelines. Do you mean as part of an Investment Management Agreement with a fund of funds or internal SFERS investment guidelines as they relate to direct hedge fund investments?

RESPONSE: Proposers should explain their qualifications and experience in setting hedge fund program guidelines and parameters as fully as possible. Hedge fund guidelines could be incorporated as an exhibit to an Investment Management Agreement for a fund of funds mandate, and/or could be a Board policy document guiding the selection of a direct hedge fund program or the parameters for a customized fund of hedge funds.

12. *If SFERS decided on hiring a fund of hedge funds, is it likely they would hire more than one firm for such a large mandate?*

RESPONSE: SFERS may engage one or more hedge fund consultants and/or fund of hedge funds managers through this RFP. SFERS does not have a predetermined composition or structure for the firms engaged through the RFP.

13. *Question regarding Appendix A – Section A – Question 9 – should provisions to the sample contract be made directly in the contract or should our comments/edits be submitted in a separate document?*

RESPONSE: A proposer shall identify any changes it would request to the form of Consulting Agreement or Investment Management Agreement (as applicable), either by providing a marked revised copy of the agreement with its requested changes or by preparing a document that identifies each section of the agreement where proposer would request changes and specifying the changes requested. Please warrant that the marked-up copy of the Consulting Agreement or Investment Management Agreement, or the document listing the agreement sections and the specific changes requested to those sections, represents proposer’s full list of requested changes.

14. *Question regarding Appendix A – Other Services – Question 110 – for purposes of our fee proposal, please clarify what the potential mandate size will be and if SFERS expects to split the mandate between providers.*

RESPONSE: SFERS expects its hedge fund portfolio to be 5% of assets when it reaches its current investment policy target, which equates to \$1 billion. The hedge fund portfolio could be split among one or more advisor or FOF manager, but no decisions on this issue have been made at this point. Proposers should consider the possibility of multiple service providers being engaged in constructing their fee proposal.

15. *Question regarding Appendix A – Other Services – Question 119e – please clarify whether “firm policies related to conflicts of interest” refers to firm conflicts or personal conflicts?*

RESPONSE: A proposer shall disclose any conflict of interest that could affect delivery of services to SFERS and describe any of its policies regarding conflicts.

16. *Are SFERS’ existing advisors being considered in this search?*

RESPONSE: Any proposer that meets the minimum qualifications is welcome to respond to this RFP. SFERS’ general investment consultant, Angeles Investment Advisors, has informed SFERS that it does not intend to respond to this RFP.

17. *Is having a hedge fund advisory role with a public fund of similar size to SFERS a requirement?*

RESPONSE: Proposers should refer to the minimum qualifications set in RFP Section IV(A) in determining their eligibility.

18. Question regarding assistance on special projects related to hedge funds: Pg. #5 of the RFP under Section “D” states that a manager must be willing to “Provide assistance on special projects related to hedge funds as needed.” Can you please provide additional guidance as to the scope and magnitude of the work envisioned here? Doing so will help us to better understand the resources that might be required and with this to develop our fee schedule proposal.

RESPONSE: SFERS expects that any hedge fund consultant or fund of funds manager would be a resource to the Plan on any investment questions related to hedge funds, including coordinating work with the Plan’s other consultants (general investment, alternative investment, and real assets) on investment issues that overlap with the hedge fund portfolio. Some possible examples of special projects could include current or leading practices on transparency, fees, and risk, but it is impossible to predict in advance what the scope of such assistance or projects would entail.

19. Question regarding fees: Exhibit D of the RFP requests that a fee schedule be submitted. Can you clarify and confirm that SFERS is only interested in being quoted on a flat fee basis. Would SFERS see value in a HFoF manager proposing a performance based fee? Also can you confirm that SFERS wants the fee quote to be based only upon the full \$1B amount of the recently approved hedge fund allocation? Would SFERS see value in have quotes at \$250MM or \$500MM or other \$AUM level?

RESPONSE: Proposers are encouraged to submit fee proposals that they believe are appropriately structured for the services they are proposing. The structure of such fee proposals is up to the proposer, and could include flat dollar fees, asset based fees, performance fees, or other structures. It is not the case that SFERS is only interested in receiving quotes on a flat fee basis.

For FOF mandates, proposers shall provide fee quotes on **different asset sizes**, specifically for a portfolio of \$250 million, \$500 million, \$750 million and \$1 billion and above.

FOF proposers shall also specify any **administrative or other fees** (e.g., audit, legal, admin, line of credit fees, etc.) charged to the proposed fund in addition to the management and incentive fees, if applicable, including a description of what these fees cover and what the total administrative or other fees were in basis points from calendar year 2011 to 2014. FOF proposers shall provide this information in response to question 110 of Appendix A of the RFP.

FOF proposers shall include the **audited financial statements** from 2011 to 2014 for the proposed fund of hedge funds.

If a proposer is proposing a “fund of one” or a custom fund of funds, the proposer shall estimate the additional administrative or other costs (as detailed above) based on proposer’s best assessment of what it would expect to propose for the program for SFERS.

20. Question regarding the role of hedge fund program in the SFERS portfolio: The RFP, across multiple questions, asks that a manager propose a hedge fund portfolio for SFERS. However, we are provided with little information with regard to the role(s) that the hedge fund program will play in the SFERS total portfolio. A review of the current asset allocation would suggest a need for: absolute orientated returns; down market protection; and diversification away from traditional equity and FI market exposures (betas). Can you confirm and or further add (i.e. any inflation protection/real return role or other)?

RESPONSE: Please refer to the response to Question 2 above. SFERS confirms the primary objectives for the hedge fund program are to achieve absolute returns, down market protection, and diversification away from traditional equity and fixed income market exposures.

Inflation protection is not a primary objective of the hedge fund allocation.

21. Question regarding Return objective/Risk Profile: Question 58 of the RFP asks the proposer to state expected prospective returns for the coming 10 years. To do this it would be helpful to know any overall risk profile target bounds that are envisioned for the hedge fund program (i.e. conservative, moderate, opportunistic)? Any numeric vol. range tolerances and/or preferences?

RESPONSE: Risk profile targets and ranges, and general objectives, have not been set yet by SFERS for its hedge fund program, other than general characteristics of the program outlined above and in the RFP. SFERS expects that the firm(s)/manager(s) selected through this RFP will provide input and assistance to SFERS in setting benchmarks and expectations.

22. Question regarding benchmarking: Has any specific return objective been envisioned, either absolute or benchmark relative (i.e. LIBOR + x%, exceed the return of HFRI X Index, et. al.)?

RESPONSE: Please refer to the response to Question 21, above.

23. Question regarding key portfolio metrics: The following presents a listing of common metrics by which a portfolio of hedge funds may be shaped/managed. Can you please advise as to any preferences and or target ranges envisioned for each? Would SFERS see value in a proposal from a HFoF manager that presented example of the ranges necessary today to allow for a portfolio whose goal was diversification, down side protection and an absolute return objective in the range of the 7.5 % assumed rate reflected in the SFERS 2013 annual report? Or perhaps other?

- Volatility range?
- Leverage – FOF level?
- Leverage – Underlying hedge fund level?
- Transparency?
- Liquidity – illiquidity tolerance?
- Betas – target ranges of equity mkt and/or FI mkt?
- Correlation target(s)?
- Range of Holdings (i.e. per Appendix A qstn #55)
- Range of hedge fund strategies allowed? Any specifically to be restricted?
- Geographic range (US centric? Global?)?
- Max policy limits on single fund, single manager, single strategy type?
- Co-investments – allowed?
- Hedge fund secondaries – allowed?
- Account structure – preference for a fund of one? SMA? Other?
- Characteristics of hedge fund managers – broad range? preference for new/small?

RESPONSE: Return objectives have not been set yet, other than general characteristics of the program outlined above and in the RFP. SFERS expects that the firm(s)/manager(s) selected through this RFP will provide input and assistance in setting benchmarks and expectations, and in understanding the tradeoffs in setting appropriate ranges and limits.

24. Question regarding revenue sources: Questions #43 & #46 of the RFP request disclosure of revenue sources. We are an independent boutique that is part of a large global financial services firm. Can you confirm that it is ok to answers questions such as these from the vantage point of our boutique, rather than globally?

RESPONSE: Proposers should respond to these questions for both the responding entity as well as the parent.

25. Question regarding providing data for funds offered and for custom portfolios: Questions #74 & #75 of the RFP ask that data be provided for “the funds that you offer or any custom hedge fund portfolios that you manage on a discretionary basis.” Our firm manages \$20B+ across 20+ strategies and close to 100 custom discretionary HFoF portfolios. Aside from information volume, we are faced with the issue of contractual client confidentiality in a number of cases. Can you clarify that SFERS as this stage of search, primarily desires data only for those strategies/portfolios that are relevant to the search at hand? Perhaps data for all generally offered strategies in parallel to the scope of question #119H? The scope of Question 119i presents potential client confidentiality issues as well with regard to advisory portfolios. We would be happy to do everything we can to meet any more specific disclosure request(s), especially in an in-person setting.

RESPONSE: Confirmed. A proposers shall ensure its response provides sufficient clarity on how proposer is responding to the questions.

26. Question regarding Section G: In pertinent part, the language says “Submissions of the RFP and associated materials will become the property of SFERS and may be used by SFERS in any way deemed appropriate.” We are happy for SFERS to retain all materials for its records. However, for the avoidance of doubt, we wanted to clarify that Manager ABC retains intellectual property rights in the contents of the materials, such as trademarks, copyrights and trade secrets. We are happy to have SFERS use the materials internally and with its external advisors as it deems appropriate in analyzing our bid, and to make disclosures as required under the San Francisco Sunshine Ordinance, California Public Records Act or any other applicable law, to the extent no exemption therefrom is applicable. We are also happy to agree to other reasonable uses.

RESPONSE: SFERS can confirm that proposers will retain intellectual property rights in the underlying contents of materials they submit, but that public records requirements will apply to the submitted materials.

27. Question regarding Section I: We simply wish to clarify that we agree to disclosure under the Sunshine Ordinance to the extent that no exemption therefrom is applicable under the California Public Records Act or otherwise.

RESPONSE: If a public records request is made for materials submitted under this RFP, SFERS would respond as outlined in RFP Section VI(I), and would evaluate any mandatory or permissive exemptions available under law. SFERS would use reasonable efforts to consult with a proposer before disclosing any information marked Business Confidential.

28. Can you please clarify the amount of the Errors and Omissions coverage that is required? Item 7 in the section outlining desired qualifications for a fund of hedge funds manager states that \$10 million in E&O coverage is desired. However, item (2) in section 4.01 of Appendix C2, the sample investment management agreement, requires E&O coverage with a per-occurrence limit of at least \$25 million dollars and an annual aggregate of at least \$50 million. Can you please confirm the amount of E&O coverage that will be required?

RESPONSE: The *desired* amount of E&O coverage is at least \$10 million as noted in the desired qualifications section of the RFP. The ultimate level of E&O insurance required will be a matter of contract negotiations, starting from the insurance coverages and amounts specified in the form contracts.

29. *We are an alternative investment firm which provides hedge fund advisory services, runs separately managed accounts and manages commingled fund of hedge fund products. Our total AUM&A as of 3/31/15 exceeds the stated \$3.5 billion threshold. Can the \$2.0 billion “custom account” threshold be met via the firm’s custom advisory service? Or solely via separately managed account assets?*

RESPONSE: Yes, the \$2 billion custom account threshold can be met via a proposer’s custom advisory service.