

**Request for Proposals (RFP) – Cash Overlay Services**

The Employees' Retirement System (ERS) of Milwaukee County is requesting proposals from investment management firms to provide cash overlay services to manage and overlay portfolio used to enhance the cash management capabilities of ERS. The notional exposure may be between \$30 – \$60 million, or approximately 1% to 3% of the total ERS portfolio. The overlay portfolio may have potential exposures consistent with the asset allocation of the plan. Only firms meeting the minimum requirements outlined in section B should participate.

Responses are due by: July 11, 2014 (4:30 CST)

The RFP questions can be obtained by e-mailing:

Ray Caprio  
Marquette Associates  
E-mail: [rcaprio@marquetteassociates.com](mailto:rcaprio@marquetteassociates.com)

OR can be downloaded through the ERS web site:

**<http://www.county.milwaukee.gov/retirement/requestforproposalrfp.htm>**



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**A. Purpose**

The Employees' Retirement System (ERS) of Milwaukee County is requesting proposals from investment management firms to provide cash overlay services to manage and overlay portfolio used to enhance the cash management capabilities of ERS. The notional exposure may be between \$30 – \$60 million, or approximately 1% to 3% of the total ERS portfolio. The overlay portfolio may have potential exposures consistent with the asset allocation of the plan. Only firms meeting the requirements outlined in section B should participate

The ERS's Investment Consultant, Marquette Associates, will be receiving and analyzing all responses from the RFP.

Proposals are being distributed to firms familiar to the ERS and the Investment Consultant known to fit the parameters. However, qualified firms that do not receive a RFP are encouraged to compete so long as the firm and product meet the minimum requirements outlined in section B. A copy of the RFP may be obtained from the Milwaukee County website: <http://www.county.milwaukee.gov/retirement/requestforproposalrfp.htm>

**Defined Benefit Plan Investment Program**

The ERS investment program of the DB plan trust, as of March, 31<sup>st</sup> 2014, totaled \$1.8 billion. The actual and target asset allocations as of March, 31<sup>st</sup> 2014, are as follows:

	Actual	Target
Fixed Income	20.9%	22.0%
U.S. Equities	25.5%	25.0%
Non-U.S. Equities	21.0%	20.0%
Hedge Funds	10.6%	10.0%
Real Estate	9.2%	8.5%
Infrastructure	8.6%	8.5%
Private Equity	2.9%	6.0%
Cash	1.3%	0.0%

**B. Minimum Qualifications**

In order to be considered for selection as a Manager, the Proposer must meet the following minimum qualifications:

- Proposer and its proposed team have all authorizations, permits, licenses and certifications required by federal and state laws and regulations to perform the services specified in this RFP at the time Proposer submits a response to the RFP.
- As of March 31, 2014, and for at least the five (5) most recent continuous years, the firm must have a verifiable operating history with at least three (3) institutional fund clients with similar size, complexity and asset mix to ERS.
- Proposer is an investment adviser registered with the Securities and Exchange Commission under the federal Investment Advisers Act of 1940.



- If yes, please provide Form ADV I and II.
- Proposer agrees to provide the services as detailed in the Specific Services Requested from the Investment Manager section of this RFP and any other requirements as stated in this RFP.
- Proposer must demonstrate that they are able to offer ERS a separate account structure for this mandate.

**C. Submission of Proposals**

1. Letter of Transmittal. A letter of transmittal must be submitted on the Proposer's official letterhead. The letter must identify all documents provided collectively as a response to the RFP, and must be signed by an individual authorized to bind the Proposer contractually. An unsigned proposal will be rejected. The letter must also contain the following:

- a. Statement that the proposal is being made without fraud or collusion; that the Proposer has not offered or received any finder's fees, inducements or any other form of remuneration, monetary or non-monetary, from any individual or entity relating to the RFP.
- b. Statement that discloses any current business relationship or any current negotiations for prospective business with the Board or any ERS Board Members or ERS Staff.
- c. Statement that the proposing firm has been in compliance with the System's Quiet Period Policy and Ex-Parte Communications Policy.

2. Minimum Qualification Certification. The Proposer must complete the certification in Part F and provide all supporting documentation.

3. Questionnaire. The Proposer must address the questionnaire items in the RFP in the order in which they appear in the RFP. Further, each question number and question in the RFP shall be repeated in its entirety before stating the answer.

4. Submission Deadline:

The completed RFP must be delivered by 4:30 pm CT, July 11, 2014. Any RFP delivered after the deadline will not be considered. Please send an electronic copy. The e-mail subject line must read as follows: "Cash Overlay Services RFP Response – Name of Respondent.", as well as one complete, hard copy, to the following:

Ray Caprio  
Marquette Associates  
E-mail: [rcaprio@marquetteassociates.com](mailto:rcaprio@marquetteassociates.com)



**D. Evaluation and Selection**

Proposals received will be evaluated by a panel that will be composed of some of the members of the Pension Board, with the advice and assistance of the ERS's Investment Consultant, Staff and Legal Counsel. Proposers may be requested to present at an interview or interviews. The evaluation panel will make recommendations to the Pension Board of the System, which will make the final selection of a firm or firms.

The recommendation(s) of the evaluation panel will be made on a consensus basis after reviewing the proposals submitted based on the following criteria:

- Compliance with the Minimum Requirements in Section B
- Overall experience, history, and past performance of the organization
- Manager team experience
- Process and philosophy of Manager
- Fees

The Pension Board of ERS will make its selection(s) by a majority vote at a public meeting of the Board. The ERS will select the Manager(s) the ERS determines to be fully qualified and best suited among those submitting proposals. *All proposals received in response to this RFP may be rejected and the ERS may seek new or additional proposals or may decline to select any Manager(s).*

Please note: The ERS is subject to Wisconsin open records law, 19.21 *et seq* of the Wisconsin statutes. All proposals will be deemed open records upon completion of the selection process. If a proposer believes that any portion of its proposal constitutes a trade secret pursuant to 19.36(5), Wis. Stats., the proposal must designate in some fashion those portions that the proposer asserts are trade secrets. In the event an open record request is received by ERS, ERS will make an independent determination of those records that it will release and is not bound by any designations made by proposers.

Candidates will be notified of their status in the RFP process when available.

**E. Questionnaire** (Please use data as of March 31, 2014 unless otherwise directed)

**I. Firm**

1. Give a brief history and overview of your organization including the following:
  - a. Development of major business lines
  - b. Nature of firm's ownership and any recent changes in ownership
  - c. Nature of relationships with affiliated companies or joint ventures
  - d. A brief description of your firm's investment history
  
2. Discuss how derivative overlay investment management services/strategies fit with your company's business plan.



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3. What was the notional value of overlay assets you had under management as of 3/31/14?
4. How many cash overlay clients do you have?
5. Provide a current listing of overlay investment management professionals at your firm.
6. Please describe any key professional turnover (hiring/departures) in the past 3 years.
7. Has your firm been subject to or is currently being reviewed, investigated or audited by the SEC or any other regulatory or government agencies? If yes, please describe.
8. Has your firm been involved in any litigation during the past 3 years? If so, please describe and indicate the resolution.
9. Describe U.S. Dollar amounts of insurance coverage for SEC-required (17g-1) fidelity bonds, errors and omissions coverage and any other fiduciary coverage, which your firm carries. List the insurance carriers supplying the coverage.
10. Describe in detail any potential conflicts of interest your firm may have in the management of Milwaukee ERS account. Include any activities of affiliated or parent organizations, brokerage activities, investment banking activities, or any past or current relationships with the ERS Board members, ERS Committee members and/or ERS investment staff. Include any other relevant activities, actions, or relationships not specifically outlined in this question.
11. Please describe your firm's disaster recovery plan.

**II. Overlay Services**

12. Describe your capabilities, history, philosophy, and processes in providing overlay services.
13. Do you have capability to electronically report trade information daily to ERS custodian (currently BNY Mellon) for automated daily reporting? If so, please describe. If not, please indicate how reporting is provided and whether there are other system requirements.
14. Provide an example of how you would provide an overlay for fund level or asset class cash balances. Given ERS asset allocation and rebalancing policy, how would you best structure an overlay at the fund and asset class levels? ERS's current asset allocation targets are described in section II.
15. For your firm's notional amount of derivatives under management, please complete the following tables as of March 31, 2014:



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	<b>Notional AUM (\$ Millions)</b>	<b>Number of Accounts</b>
<b>Corporate</b>		
<b>Public</b>		
<b>Union/Multi Employer</b>		
<b>Foundation and Endowments</b>		
<b>Insurance</b>		
<b>HNW</b>		
<b>Wrap Accounts</b>		
<b>Sub-advised</b>		
<b>Other</b>		

16. List the 5 largest U.S. tax-exempt clients (including public and ERISA fund clients) you are currently providing overlay services for:

<b>Client Name</b>	<b>Inception Date</b>	<b>Notional Value</b>

17. List all clients (with notional AUM) gained or lost in the subject services over the past three years as of 3/31/2014.

18. Please provide at least three client references. For each reference, please include the client's name, brief summary of the services provided the length of the relationship and the client's contact information - email address and phone number.

19. Provide the client name, address, phone number, contact name, title and account type (e.g. defined benefit, defined contribution, endowment) of three accounts that have terminated their relationship with you in the subject service over the past three years.

20. Describe the factors you consider to be important when evaluating overlay services.

21. What unique features of your investment approach do you feel add the most value over time?

22. Describe in detail the risks involved in an overlay strategy and your risk management process.



23. How would your firm ensure that all data are correct, that the trade instructions are correct and the plan achieves the exposure target? How will your firm ensure compliance of the exposure target with pre-specified policy ranges, if any?
24. Please explain how your firm monitors and maintains margin requirements.
25. Please explain how your firm stays current with changes in the futures exchanges.
26. How frequently do you rebalance a portfolio to maintain asset allocation weightings and to invest residual cash?
27. Please describe your process to design a new policy overlay program for a new client.
28. Does your firm utilize firm wide investment guidelines in an overlay program? If so, please provide these investment guidelines.
29. Do you have any clients that use the cash overlay process to generate alpha? If so please describe the process of alpha generation.
30. Discuss futures roll cost and provide comments on futures mispricing. In your opinion, is the richness of the mispricing recently observed a passing anomaly or are premiums to fair value sticky (assume a long position)?

### **III. Trading**

31. Detail your firm's global trading capabilities, technology and experience, highlighting U.S. equity, non-U.S. equity, US and non-US fixed income (both nominal and inflation-linked), and OTC, FX and futures, including commodities futures capabilities as they relate to derivatives overlay, equalization strategies and managing other relevant exposures or other strategies.
32. How does your firm identify and resolve any potential trading conflicts?
33. In this capacity are you a fiduciary or a principal? Describe all sources of profit for this activity
34. Please list the various types and levels of trading costs associated (both implicit and explicit) with the type of trading. What brokerage arrangements are required for this service, which brokerage firms would be utilized, and how would they be selected. Can minority owned brokerage firms be selected? If not, why not?
35. How would margin requirements be handled (initial and variation)?
36. Detail your initial margin and maintenance margin requirements for ERS benchmarks, if applicable.





37. Do you require margin in excess of exchange requirements?

38. Do you utilize exchange-traded derivatives only? If not, please describe your approach for managing OTC exposures and ISDAs. Do you utilize an umbrella ISDA, or would ERS need to negotiate separate ISDAs

#### **IV. Client Service**

39. Please describe your client servicing and reporting capabilities.

40. Specify the approach you would use for measuring and reporting the performance of the overlay and its impact on the fund.

41. How do you share data and reconcile performance with the custodian and consultant?

42. Please provide samples of relevant client reports. How often are reports available and how are they delivered?

43. Describe your new client set-up procedures with ERS and our custodian.

#### **V. Compliance and Internal Control**

44. Provide a detailed summary of your firm's compliance/internal control structure. Identify key personnel in the firm's compliance process.

45. Please attach your firm's code of ethics. Highlight any area that materially changed within the past three years.

46. Is your firm compliant with the CFA Institute Asset Manager Code of Professional Conduct? If not, discuss your firm's reasons for choosing not to comply.

47. Does the firm conduct periodic risk assessment? Provide a copy of SSAE 16 if available, or other internal control review documentation, preferably prepared by an independent third party.

48. Provide copies of the firm's most recent audited financial statements and auditor's management letter.

49. Please describe the compliance process for ensuring derivative positions conform to client guidelines. Describe any systems utilized, if applicable

50. To whom does the chief compliance officer report?

51. Specific to cash overlay services, describe your compliance process to ensure daily compliance with our investment guidelines.



52. Have you ever made an improper trade that negatively impacted your client's account (e.g., bought a futures contract instead of selling it)? If so, please explain how it happened and how it was rectified.

**VI. Operations and Back Office**

53. Provide a list of the operations and back-office professionals you propose to service the ERS account:

Name	Title & Responsibilities	Location	Years of Experience	Years with Firm	Degrees/Certifications

54. Provide biographies, no longer than one page, of each of the persons listed in response to the previous question Please include their prior employment history.

55. What personnel or organizational improvements are planned over the next one to three years?

56. Provide an organizational chart that diagrams the different operations functions dedicated to the product area.

57. Discuss any turnover involving operations.

**VII. Fee Proposal**

58. Please describe your fee proposal for this engagement.

59. Assume an initial funding of \$50 million notional. Describe fee discounts for larger funding amounts.



**F. Minimum Qualification Requirements and Certification**

Proposers must satisfy each of the following minimum qualifications for this RFP, in order to be given further consideration by the Board of Trustees. Failure to satisfy each of the requirements will result in the immediate rejection of the proposal. Failure to provide complete information will result in the rejection of the proposal. Please circle "YES" or "NO" where indicated. If evidence is requested, please provide complete documentation.

1. Proposer and its proposed team have all authorizations, permits, licenses and certifications required by federal and state laws and regulations to perform the services specified in this RFP at the time Proposer submits a response to the RFP. (Yes/No):\_\_\_\_\_
2. As of March 31, 2014, and for at least the five (5) most recent continuous years, the firm must have a verifiable operating history with at least three (3) institutional fund clients with similar size, complexity and asset mix to ERS. (Yes/No):\_\_\_\_\_
3. Proposer is an investment adviser registered with the Securities and Exchange Commission under the federal Investment Advisers Act of 1940. (Yes/No):\_\_\_\_\_ If yes, please provide Form ADV I and II.
4. Proposer agrees to provide the services as detailed in the Specific Services Requested from the Investment Manager section of this RFP and any other requirements as stated in this RFP. (Yes/No):\_\_\_\_\_
5. Proposer must demonstrate that they are able to offer ERS a separate account structure for this mandate (Yes/No):\_\_\_\_\_

IF PROPOSER PROVIDED A "NO" RESPONSE TO ANY OF THE MINIMUM QUALIFICATION REQUIREMENTS ABOVE, PROPOSER SHOULD NOT SUBMIT A PROPOSAL TO ERS.

PLEASE CERTIFY THE PROPOSER'S SATISFACTION OF THE MINIMUM QUALIFICATIONS BY PROVIDING THE PROPOSER'S AUTHORIZED SIGNATURE BELOW.

Authorized Signer Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Respondent Firm: \_\_\_\_\_  
Signature: \_\_\_\_\_  
Date: \_\_\_\_\_

