

Investments Operational Due Diligence Review RFP Questions and Answers

Q1: Is part of the scope of this engagement to perform testing of individual managers to confirm pre and post investment/ongoing monitoring ODD reviews were performed adequately and timely? If so, do you have an expectation of the sample sizes and criteria for selection of Managers? Or will you rely on the vendor's recommended risk-based criteria and sample size selection?

A1: Yes. We will rely on the vendor's recommended risk-based criteria and sample size selection.

Q2: Is this engagement limited to a review of the current state ODD framework and design? Such as reviews of policies, procedures, templates, governance and supervision activities, risk ratings criteria, issues tracking, use of third-party ODD services, etc. Or as referenced in Question 1 is testing of individual managers ODD reviews part of the scope as well.

A2: Yes, a review of the Investment Office ODD framework and design, including the Investment Office's use of investment consultants to perform ODD. We would expect the vendor's work to include sample reviews of ODD work performed by the Investment Office or their consultants of individual managers on a pre-investment and ongoing basis, in order to assess the effectiveness of the ODD program as further defined in the scope of work. ODD performed by LACERA's investment managers for their investment activities on behalf of LACERA is not part of the scope.

Q3: If testing is part of the scope what is your expected review period? (i.e. 1 or 2 year lookback)

A3: This will be at the vendor's discretion, but the objective is to evaluate the effectiveness of the current process.

Q4: Has the ODD Working Group completed its implementation of all recommended enhancements from the 2020 analysis?

A4: The ODD Working Group is made up of investment team members who developed and presented the November 2020 ODD Analysis to the Board of Investments. The investment team has implemented most actions items and is continuing in this effort for those remaining areas identified in their analysis that need to be enhanced. Refer to November 2020 ODD Analysis attached.

Q5: What are the anticipated deliverables/output expected for the engagement? (i.e. Final written report of observations and recommendations, Suggested edits to policies/procedures, ODD templates, etc.)

A5: A final written report and a presentation of the report to the Audit Committee and/or Board of Investments.

Q6: Do you have expectations of the duration (# of weeks) for an engagement of this scope and depth?

A6: We anticipate the engagement to be around 12-16 weeks.

Q7: Request to include indemnity for Consultant and exculpation at a Gross Negligence standard for both parties in the Agreement for Services, Exhibit E.

A7: You can provide proposed amendments with your proposal for consideration, which will be negotiated and discussed with our legal team during contract negotiations for the successful bidder. However, the template agreement attached to the RFP reflects LACERA's general position on indemnity and standard of care. As stated in the RFP, LACERA reserves the final authority in its sole discretion to accept or reject, in whole or in part, requested modifications to the template form attached as Exhibit E.

Q8: Although our existing coverage meets or exceeds the RFP's requested coverage, we would like to request to modify the insurance provision to match existing coverage which is both customary and commercially reasonable for our services in the Agreement for Services, Exhibit E.

A8: See answer to question 7. LACERA will negotiate reasonable coverage modifications in its sole discretion.

Q9: Request to strike the obligation to obtain SOC 2 Type II in the Agreement for Services, Exhibit E.

A9: See answer to question 7. LACERA has a certification alternative for respondents that do not have a SOC 2 Type II available. Respondents must agree to LACERA's information security review process.

Q10: Please confirm if the \$5 million aggregate limit of cyber insurance in the Agreement for Services, Exhibit E, is a requirement to participate in the RFP process.

A10: See answer to question 8. LACERA reserves the right to negotiate terms. Changes to insurance coverage or limits are at LACERA's sole discretion and must be accepted by LACERA's insurance broker.

Q11: Can you elaborate on the scope of the November 2020 analysis and

(i) the nature of the identified ODD improvements, and

(ii) the current state of each improvement's implementation?

Will the consultant be expected to evaluate current ODD processes that may be subject to change due to the November analysis? Alternatively, to the extent not fully implemented, will the consultant be expected to review and evaluate in-process improvements that relate to the November 2020 analysis?

A11: See attached November 2020 ODD Analysis for Q11(i). See response A4 for Q11(ii). Yes. The consultant would be expected to review the current process including processes made in result of the November 2020 ODD Analysis.

Q12: Will the consultant be able to access individuals, data, presentations, etc. from the existing Investment Consultant(s) and other third-parties that LACERA staff rely on throughout the pre and post investment ODD process? What is the extent that 3rd parties and/or internal resources are relied on to perform initial and on-going ODD reviews? Additionally, if performed internally, what can you tell us about the size and structure of the team performing that work?

A12: Yes, but it may require an NDA subject to review by LACERA's Legal Division. Generally, consultants lead the ODD function for private market investments and internal staff lead the ODD function for public market investments. The investment team is made up of 31 investment professionals with varying responsibilities across the public and private market portfolios.

Q13: Are investment mandates institutional separate accounts or institutional commingled funds?

A13: Both.

Q14: Exhibit E – Agreement for Services, Contract for Consulting Review, Item 1.2 indicates that "Consultant agrees to perform the Services at LACERA's offices, and with LACERA's consent via telephone or email, and when appropriate, at a location of Consultant's choice." Given the global pandemic associated with Covid-19, is LACERA agreeable to consultant delivering services remotely?

A14: Yes, we expect all services will be performed remotely for the foreseeable future. However, respondents should include costs of certain on-site work if it is deemed necessary.