Los Angeles County Employees Retirement Association (LACERA) Illiquid Credit Emerging Manager Program
Separate Account Manager RFP – LACERA Responses to Written Questions

11/16/21

1. Private credit funds typically provide quarterly marks and report IRR/MOIC; we notice that several of the RFP questions request monthly data – Can you please advise on the expectations for these questions (89 & 90)? Are we able to provide IRRs instead of Time Weighted Rate of Returns, which are more appropriate for private investments?

    - We favor reviewing monthly returns. We will review quarterly data in lieu of monthly data. We will consider both time-weighted and internal rate of return calculations.

2. Is there a preferred investment structure for the mandate? Specifically, does LACERA have a preference for an open-end evergreen structure or a closed-end draw down structure? If closed-end, is there a preferred term for the investment period?

    - We anticipate that a well-developed program of emerging illiquid credit managers will include a variety of vehicles and have both evergreen and closed-end structures.

3. In regard to the minimum qualifications, would an institutional emerging manager program qualify if the majority of the program (i.e. ~75%) is dedicated to emerging managers but it is not exclusive to emerging managers?

    - The applicable assets, even if within a broader portfolio, could be used towards meeting a minimum qualification regarding the same category. However, when reporting performance, only investments that could be defined as an emerging manager should by included.

4. Is there a willingness to invest in emerging manager credit programs that are more liquid but still have the ability to deliver on LACERA's objective for the allocation?

    - It can be debatable where to draw a line between liquid credit and illiquid credit. We acknowledge this and will have some flexibility during implementation, pending further discussions with a selected separate account manager.

5. What is LACERA's tolerance for closed-end vehicles? Would LACERA be able to describe your tolerance on the liquidity spectrum for this allocation?

    - We anticipate that a well-developed program of emerging illiquid credit managers will include a variety of vehicles and have both evergreen and closed-end structures. The overall program would not be considered a source of liquidity for LACERA and we expect it would include varying degrees of less liquid portfolio investments. This could be refined further with a selected separate account manager.

6. Can LACERA describe your expected risk and return profile for the allocation beyond the stated benchmark?

    - We expect to be compensated for risks incurred and would demand a return premium from a portfolio of illiquid credit assets compared to liquid credit markets. We can discuss this further with selected candidates.

7. Is the expectation that there will be ~10 emerging managers within the portfolio which will ultimately complement ~10 managers within the direct portfolio? Does an emerging manager eventually "graduate" to the direct portfolio?

    - We expect that a fully built-out portfolio of emerging illiquid credit managers will have approximately 10 managers. LACERA's portfolio will evolve over time and the count of managers is unknown. Our goal is to graduate, and increase investment allocation to, select firms that deliver attractive risk-adjusted returns, act as strong partners, and develop strong operational practices.

8. Are there any expectations around the ramp up period to deploy the $750mm allocation?

    - We anticipate that it would take up to several years to both 1) identify outstanding smaller and newer firms and 2) for underlying emerging managers to deploy capital into illiquid credit assets.

9. Is there a Diversity, Equity, and Inclusion ("DEI") qualification or requirement of the underlying programs?

    - We are looking for proposals from prospective business partners who can construct a portfolio while uplifting numerous LACERA initiatives, including our T.I.D.E. initiative that describes our efforts towards diversity, equity, and inclusion.

10. Can you please clarify why there is a differing set of minimum qualifications relative to the prior Illiquid Credit RFP search in 2019 (prior minimum qualifications stated in the 2019-04-10 Board Agenda)?

    - The above referenced RFP was for a different scope of services compared to the current RFP. The current RFP is for a separate account investment manager to construct and manage a portfolio of emerging illiquid credit managers.

11. Will LACERA accommodate a XYZ Funds and Co-Investments' firm level track record in aggregate with the portfolio manager's track record at a prior firm? ABC's track record is slightly below the minimum of $200 million but in aggregate with the portfolio manager's experience at a prior firm, it is above the threshold significantly.

    - No.

12. Will staff consider as a solution: I) a fund-of-funds proposal; II) a fund-of-coinvestments proposal; or, III) a mix of I) and II)?

    - Yes for I; no for II and III.

13. The RFP refers to a "separate account manager". Would LACERA have a preference as to whether this would be structured as a separately managed account vs. a fund-of-one?

    - We expect to make investments directly in LACERA's name.

14. In the RFP file, in Section IX we saw the language: "LACERA has the right to change, or negotiate contract terms different than those in Exhibit E in our sole discretion." Would you be able to share the contract terms at this time, or is this referring to the IMA that finalists would have the opportunity to mark up if they get to that stage?

- We intend to share and discuss contract terms with select candidates in the future and should not have referenced Exhibit E in Section IX.

15. In the RFP file, Section X(B) – would you be able to share more information on the requirements under LACERA's policy with respect to reporting economic interests and conflicts?

    - Further information can be found here: https://www.fppc.ca.gov/Form700.html. You may wish to consult with legal counsel.

16. What is LACERA's definition of "illiquid"? What is the expected duration of illiquid investments?

    - It can be debatable where to draw a line between liquid credit and illiquid credit. We acknowledge this and will have some flexibility on how to define "illiquid" during implementation, pending further discussions with a selected separate account manager.

17. What are LACERA's thoughts on portfolio construction and diversification?

    - LACERA's primary approach to diversification is across several functional asset categories. Credit is one of those functional asset categories and illiquid credit is a sub-component. We expect a degree of diversification within the emerging manager program across managers and investment strategies.

18. In the Questionnaire, #72 – the question implies the portfolio has to be constructed immediately. What are expectations for deployment? Would you consider an approach of deploying capital over three years?

    - Question #72 asks candidate firms to propose a sample or model portfolio that can be evaluated by LACERA. We anticipate that it would take up to several years to both 1) identify outstanding smaller and newer firms and 2) for underlying emerging managers to deploy capital into illiquid credit assets.

19. What are LACERA's views on GP economics? Is the preference to have one?

    - We strive to build lasting and meaningful strategic relationships as we invest capital and this is especially true in emerging manager programs. There are several ways to improve alignment of interests and "GP economics" are one of these ways.

20. Do you anticipate the manager having sole discretion or will there be joint discretion between the manager and LACERA?

    - We anticipate a separate account manager having discretion of portfolio construction while collaborating with LACERA on portfolio fit considerations that could result in an exercised veto right from LACERA.

21. Would LACERA be open to putting a NDA in place, that way we can disclose more information?

    - We are open to entering into reasonable NDA agreements with semi-finalist candidates. Related information can be found in the RFP section VII regarding the California Public Records Act.