

Request for Proposals (RFP) – Long/Short Equity Fund of Funds

The Employees' Retirement System (ERS) of Milwaukee County is requesting proposals from interested firms for Long/Short Equity Fund of Funds management. The Pension Board is seeking to identify one or more firms to manage a Long/Short Equity Fund of Funds allocation of approximately \$160 million.

Responses are due: September 22, 2009

The RFP questions can be obtained by e-mailing:

Ray Caprio
Assistant Vice President
Marquette Associates, Inc.
180 N. LaSalle Street, Suite 3500
Chicago, IL 60601
Phone : (312) 527-5500
E-mail: rcaprio@marquetteassociates.com

In addition the RFP information may be downloaded:

<http://www.county.milwaukee.gov/PensionBoard16144.htm>



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A. Purpose

This Request for Proposal (“RFP”) has been issued by the Pension Board of the Employees’ Retirement System of Milwaukee County (“the ERS” or “System”) to identify one or more firms (“Manager”) who will be eligible to manage Long/Short Equity Fund of Fund assets. The ERS seeks proposals from Managers experienced in managing assets relative to the HFRX Hedged Equity Index (“Benchmark”).

The ERS anticipates selecting Manager(s) that it identifies, through the RFP process, that are most likely to successfully outperform the Benchmark with controlled risk. The ERS anticipates funding the Manager(s) with approximately \$160 million.

The ERS’s Investment Consultant, Marquette Associates, will be receiving and analyzing all responses from the RFP. Please contact Ray Caprio via email with any questions.

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 and may obtain the RFP document from the Milwaukee County website:

<http://www.county.milwaukee.gov/PensionBoard16144.htm>

B. Minimum Qualifications

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

- The Manager must have the ability to act as a fiduciary to the ERS.
- The Firm must be a registered investment advisor with the Securities & Exchange Commission pursuant to the Investment Advisors Act of 1940, as amended, and the registration must be current.
- The Manager must have a Long/Short Equity Fund of Funds product with a minimum track record of 5 years.
- The Firm/Manager must have an E&O Insurance Policy minimum of \$5 million.
- The Manager must have at least \$300 million of assets in the Long/Short Equity Fund of Funds proposed product as of June 30, 2009.
- The Manager must have at least 2 senior members of the investment team that have been in place on the product for at least 3 years.



- The Manager must maintain sufficient procedures and capabilities to ensure the timely and accurate backup and full recovery for all data storage systems related to the ERS account.
- The Manager and its personnel must have all authorizations, permits, licenses, and certifications as may be required under federal, state, or local law to perform the services specified in this RFP at the time it submits a response to the RFP.

C. Scope of Services

The ERS is looking to place assets with a Manager that can perform the following services:

- Provide monthly and quarterly reporting to ERS and the Investment Consultant.
- Complete quarterly and/or monthly requests for information from the Investment Consultant.
- Participate in meetings or conference calls as needed.

D. Submission of Proposals

- Proposals should first indicate whether or not the firm meets all the minimum requirements stated in **Part B**.
- Completed responses must include a proposed sample Investment Management Agreement, Form ADV II, and the most competitive cost proposal available.
- RFP must indicate the exact title of the proposed fund, the series, and whether the product is an onshore or offshore structure.
- Candidates must also complete Appendix I (page 12 separate excel attachment) which should accompany **Part F**.
- Upon completion of **Part F**, submit by September 22, 2009, electronically to:

Ray Caprio
Assistant Vice President
Marquette Associates, Inc.
E-mail: rcaprio@marquetteassociates.com



E. 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
- Return and Risk of the Manager relative to the Benchmark
- 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 Managers(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.

F. Request for Proposal

(please use data as of June 30, 2009 unless otherwise directed)



I. Firm

- 1) What year was your organization established? Please give a brief history of your organization.
- 2) Please provide the organization's name, as well as the name, title, address, phone number, fax number, and email address of the individual who will be serving as our primary contact.
- 3) Please provide the address and website address of the firm's headquarters and all branch offices.
- 4) Please comment on the financial solvency of your firm. Do you have any firm debt? What is the minimum asset level to which your firm would remain profitable?
- 5) Please provide a brief description of your firm's plans for growth, such as asset growth, personnel growth, succession planning, over the next 3-5 years.
- 6) Please provide a succession plan for key employees if any key retirements are planned within the next 5 years.

II. Ownership

- 7) Please discuss your general ownership structure, including what percentage of your firm is owned by current active employees.
- 8) Is your firm owned by a parent company? If so, please describe the relationship in detail.
- 9) Have there been any changes in the ownership structure of your firm in the past five years? If yes, please explain in detail.
- 10) Are there any known or contemplated firm changes in ownership or changes in firm personnel? If so, please explain.

III. Client Breakdown

- 11) Please provide the firm's and product's breakdown by clients as of the current date (as measured by % of assets under management) using the following format. Please provide a brief explanation as to the contents of "other."

Foundation/ Endowment	Corporate	Public	Taft- Hartley	High Net Worth	Foreign	Other
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Firm						
Product						

12) Please provide the approximate client turnover in the *firm's total Hedge Fund of Funds* business using the format below.

	2005	2006	2007	2008	2009
# of Clients Gained					
Assets (\$MM) Gained					
# of Clients Lost					
Assets (\$MM) Lost					

13) Please provide the approximate client turnover in the *proposed product* using the format below.

	2005	2006	2007	2008	2009
# of Clients Gained					
Assets (\$MM) Gained					
# of Clients Lost					
Assets (\$MM) Lost					

IV. Investment Professionals

Firm Specific:

- 14) Please provide brief biographies of the investment professionals (analyst/portfolio manager/trader) in the firm. List ownership and % held by the investment professionals.
- 15) Please discuss the compensation plan of the investment professionals. Please breakout the differences between the portfolio manager's compensation and analyst compensation. Please specifically describe whether the bonus plans are based on asset growth, investment performance, or some combination. If any or part of the compensation is based on investment performance, please specifically cite the performance measurement (performance vs. peers, vs. benchmark) and the time period involved (1 year, 3 years, or a weighted measurement).
- 16) Are the investment professionals under employment contracts with the firm?



VI. Compliance

- 24) Is your firm affiliated with a broker dealer?
- 25) Are you a registered investment advisor? Please attach a copy of your ADV Part II.
- 26) Please provide a brief description of any past or pending regulatory action, litigation, or other legal proceedings involving the firm or any registered employees and/or principals as defendants in the last 5 years.
- 27) Are you currently or have you been in the last 5 years out of compliance with the SEC, DOL, or any regulatory agencies? If yes, please explain thoroughly.
- 28) Has your firm been audited by the SEC, DOL, or any regulatory agency in the past 5 years? Please explain any key findings. Please attach a copy of the SEC Review findings and firm responses.
- 29) Do you have a dedicated compliance officer? Does this person serve other roles within the firm? If so, please describe.
- 30) Who is the firm's independent auditor? How long have they been serving in this capacity?
- 31) Who is the firm's legal counsel or do you use an in-house legal team? Please provide brief biographies for them, indicating how long they have been serving in this capacity.
- 32) Please describe your firm's disaster recovery and business continuity plans, specifically addressing the most recent date and the numbers of times you have practiced and tested your procedures in the past 5 years, and the results of those exercises. Please provide a copy of your firm's disaster recovery and business continuity procedures.
- 33) Please address your back-up capabilities and/or offsite location, particularly related to your trading desk, in the event your primary office location was inaccessible.
- 34) What are your procedures for personal trading policy violations? How many violations of your personal trading policy have occurred in the past 12 months?



VII. Product Investment Process

35) Please provide a complete review of your firm's investment methodology for the product and the decision making process. Please comment specifically on:

- Manager sourcing process
- Number of managers and weighting decisions
- Type/philosophy/style of managers that are attractive
- Comment on manager's fees, lock-ups, size, tenure and growth and the impact on your decisions
- Manager leverage, use of cash, shorting methodology, historical drawdowns
- Top-down macro influences on the product
- Manager termination decisions and average annual portfolio turnover
- Internal decision making structure (team or individual)

36) Have there been any changes to the product's investment process over the past five years? If yes, please describe in detail.

37) Please describe your operational due-diligence process with prospective managers and with the current managers that are in the portfolio? Please comment specifically on:

- Manager transparency
- Pricing procedures

38) Are there asset capacity constraints on the product? What are the factors influencing this issue?

39) Explain the process of allocating new client assets. How is cash drag minimized? What is the current cash weighting in the product (% based on total market value)? What was is at the end of last year? What is the average percent of cash in total underlying managers as of the end of the last calendar year?

40) Please discuss your assessment of the current investment environment outlook for this product and how your firm plans to provide superior performance for clients in the years ahead.

41) What distinguishes your firm from other fund of fund managers with respect to this product and with respect to the hedge fund industry?

42) Please list all your current service providers in the following functions:



Administrator:

Auditor:

Legal Counsel:

Custodian:

Risk Management System (if using an external provider):

Back-Office Due Diligence

- 43) Please provide a complete review of your firm's due diligence process related to manager's back office policies and procedures. How often do you revisit this analysis with a current manager?
- 44) Do you require independent background checks on the key personnel before investing in their product? If yes, what firms do you utilize for checks?
- 45) Please discuss your review of manager's pricing valuation methodologies. Do you have a minimum requirement?

Performance

- 46) What benchmark does your firm evaluate the product performance against? What type of long-term performance defines success of the product?
- 47) Please discuss your firm's target expected return for this product, net of fees, over a three and five-year period.
- 48) What market conditions would lead to poor performance for this product?

Fees & Miscellaneous

- 49) Does your firm offer a separately-managed portfolio for a hedged-equity portfolio? If yes, what is the minimum account size? Please estimate the initial cost and ongoing administrative costs to set-up and maintain a separate account of \$160 million in assets. Please also quote a management fee for an account of this size.
- 50) For the commingled product option please provide all available management fee options for a \$160 million allocation.
- 51) Excluding all management fees charged to the commingled product, what was the total



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dollar amount of administrative fees charged to the product in the calendar year 2008
(administrative fees, legal fees, etc.).

Appendix I.

Download the excel spreadsheet, complete utilizing 6/30/09 data, and submit as a separate attachment with **Part F.**

