



Request for Information (RFI) Risk Diversifying Strategies

Introduction

Contra Costa County Employees' Retirement Association (CCCERA) is requesting information from investment management firms regarding the management of a risk-diversifying portion of the pension plan assets. This RFI seeks to identify those investment management firms that could be invited to compete for the mandate at a later stage. Respondents must be able to demonstrate strong investment capabilities in managing a portfolio that meets two or more of the following objectives:

- Low to negative correlation with broad equity market indices
- Positive expected returns in normal market environments
- High degree of liquidity in periods of equity market stress

The selected firm(s) should anticipate a close working relationship with CCCERA Investment Staff and general investment consultant and should be able to provide customizable reporting to reflect investment risks assumed across various dimensions. Responding firms are expected to be capable of working within the context of CCCERA's pre-existing investment structure as well as other risk-diversifying strategies in order to reduce total fund volatility and maintain a low absolute volatility for the risk-diversifying program.

CCCERA is open to various approaches to meeting the above stated objectives, and encourages creative approaches outside a traditional hedge fund strategy, though strategies delivered through hedge fund vehicles may be considered. CCCERA Investment Staff has a general preference for simpler strategies; however, the inclusion of leverage and/or short selling will not disqualify a responding firm from further consideration provided the inclusion of these elements is justified.

Background

The Functionally Focused Portfolio (FFP) framework was adopted by CCCERA at the December 2, 2015 meeting. FFP conceptually identifies portions of the total portfolio to fulfill the specific functions of 1) Liquidity, to meet monthly benefit payments and expenses for the next four years on a rolling basis; 2) Growth, to ensure assets will be available to meet future benefit payments & expenses; and 3) Risk-diversification, to mitigate volatility within the growth assets and provide safety in the event of a market correction. The current long-term allocation for the Risk-diversifying portion is 12% of plan assets. The current target allocation to Growth assets is 61% and the allocation to Liquidity assets is 27%.

The conceptual framework of the Functionally Focused Portfolio process utilized by CCCERA and the recommendation for implementation can be found at the following [link](#). In brief, the risk-diversifying program is intended to deliver a diversification benefit to CCCERA's total fund and be a source of funds to buy growth assets at distressed prices during periods of market stress, while having a neutral to positive carry in normal growth market environments.

Request for Information

This RFI is intended to encourage investment managers with unique capabilities to demonstrate their interest and approach to managing the risk-diversifying portion of the plan's assets. We are seeking innovative approaches that thoughtfully recognize the embedded challenges in managing the assets and propose sound methods to address those challenges. Fees will also be an important consideration in the evaluation.

For this RFI, no minimum qualifications will be stated so as to encourage all interested parties to participate. Similarly, the specific questions provided below are intentionally high-level and open-ended so that your philosophy and strategy can be described as you deem appropriate. Finally, succinct rather than lengthy responses should be provided. Additional materials may be included as appendices if necessary. It is expected that more than one firm will be selected to manage the risk-diversifying portfolio.

Timeline

Please note the following important dates associated with this RFI:

- June 2, 2017 RFI released to all interested parties
- June 9, 2017 Questions regarding this RFI may be submitted to: rfi@cccera.org by 2pm PDT
- June 16, 2017 Responses to questions will be posted to CCCERA website
- June 23, 2017 Responses due to CCCERA. Please send responses in PDF format to: rfi@cccera.org by 2pm PDT

Questions

1. Which of the three aforementioned objectives does your proposed strategy address?
2. Describe your firm's philosophy, capabilities, and experiences in constructing risk-diversifying portfolios aligned to the objectives stated in your response to question 1.
3. Describe your firm's research and investment decision making process.
4. What risk and return characteristics would the portfolio have in today's market environment?
5. What behaviors do you expect your proposed solution to exhibit during a stressed market environment?
6. Describe your firm's risk management philosophy, process, and procedures.
7. Describe your recommended approach to risk reporting. Please provide sample risk reports.
8. What are the primary investment concerns that you see with managing this portfolio?
9. Detail your firm's latest audit and all operational issues that were identified (if any).
10. Please provide your proposed fee structure assuming your firm would manage a mandate in the \$50mm to \$200mm range.
11. Please provide a GIPS compliant composite or performance track record report.
12. Please provide a historical Schedule of investments for the past four quarters.
13. Please describe the proposed use of leverage, futures, forwards, options, swaps, and other derivatives.
14. Please describe your process for managing collateral.
15. How do you manage counterparty risk?