Indiana Deferred Compensation Plans' BAA Questions & Answers

Alternatives Search

1) With regard to the Alternatives proposal for the Indiana Deferred Compensation Plan, could you please provide details as to the requested legal structure of the target date funds?

   Technically, there is no real legal structure for the target date funds. The funds are customized and were created to provide participants diversified investment options that rebalance automatically. The daily NAV is calculated by the recordkeeper. A number of different vehicles will be considered for the search including, but not limited to: mutual funds, commingled funds, and separate accounts.

2) Would the Indiana Deferred Compensation Plan consider an investment vehicle for the hedge fund component that offers any of the following… monthly pricing and quarterly liquidity (with 5 business days notice)? …monthly pricing and quarterly liquidity (with 90 days notice)? …monthly pricing with annual liquidity (December 31, with 90 days notice)?

   While daily liquidity is not a requirement, it is a requirement that the proposed vehicle is valued daily and complies with all other contractual requirements of the recordkeeper as outlined in Exhibit A.

3) Regarding the search for Indiana Deferred Compensation, we were considering putting forth our Global Allocation strategy. As you know, this strategy invests in our best global investment opportunities, and is broadly diversified across asset classes, countries, and securities – seeking to provide competitive returns across all market environments with added downside protection. The strategy allocates freely across equities, fixed income, and cash equivalents. I realize this does not fit neatly into the 'alternatives' bucket, but was wondering if you could provide guidance if this would be a viable option for this search. Or, was is the plan looking for a more pure alts allocation?

   Yes, this strategy would be considered. The strategy, as you described it, may also be a possible candidate for the Unconstrained Equity search.

4) What is the preferred benchmark for the mandate?

   There is not a preferred benchmark for the mandate.

5) What is the preferred peer group for the mandate?

   There is not a preferred peer group preference for the mandate.

6) Under which bucket (i.e. hedge fund or unconstrained equity) would you consider a Global Long / Short strategy?

It would depend on the characteristics and risk exposure the strategy exhibits. If it has exhibited a higher correlation to equities and characteristics that resemble that of an equity portfolio throughout its history then it may be a better fit for the Unconstrained Equity mandate. On the other hand, if it has much different risk exposures than traditional equity portfolios and has shown to have little or no correlation to them then Alternatives may be a better fit. You may also consider submitting the strategy for both searches.

7) Regarding Global long/short, do you have a preference between market neutral or strategies that take net long/short positions?

There is no preference between the two of them. The Plans would consider both strategies.

8) Will you consider a separate account?

Any vehicle that is capable of being valued on a daily basis, and the manager is willing to value the vehicle on a daily basis and comply with the first requirement stated in Exhibit A of the Recordkeeper Requirements will be considered.

9) Will you consider an institutional mutual fund?

Yes.

10) With respect to Exhibit A, will you accept vehicles that provide monthly liquidity for the Alternatives mandate?

Any vehicle that is capable of being valued on a daily basis, and the manager is willing to value the vehicle on a daily basis and comply with the first requirement stated in Exhibit A of the Recordkeeper Requirements will be considered. There are a number of vehicles that would be acceptable, such as separate accounts, commingled funds and mutual funds as long, as they are valued daily.

11) With respect to Exhibit A, will you accept vehicles that provide estimated/non-tradable daily pricing for the Alternatives mandate?

No, the daily valuation provided would need to be accurate and final.

12) With regards to the *minimum qualifications and scope of work*, is it an absolute requirement that the proposed product provide the investor with daily valuations – if not, would a product offering semi-monthly valuations be considered?

It is mandatory that the proposed vehicle be valued daily. There are a number of vehicles that would be acceptable, such as separate accounts, commingled funds and mutual funds, as long as they are valued daily.

13) In January we partnered with another firm to launch a multi-manager, multi-strategy 40act mutual fund that offers daily liquidity and full transparency. The fund today is $33 million with

commitments from our partner to be $100 by year end. Please advise if the committee would consider our 40act fund.

Candidates should be able to demonstrate that they manage significant assets ($200 million or more) in the area for which it competes. However, we will consider candidates who manage less than this on a case-by-case basis. We have worked with managers with lower asset levels in the past.

14) For the account grid the term "Sep Act" is broadly asked. Does this specifically refer to Separate Accounts or are you looking individual client accounts meeting those tax statuses?

We are specifically referring to separate accounts, not individual client accounts.

15) Our firm would like to respond to the State of Indiana Public Employees Deferred Compensation's questionnaire for investment management services. We plan on submitting a response for a hedge fund of funds strategy. However, a number of Recordkeeper Requirements (in Exhibit A) are not applicable for the strategy. Should we state this and provide an explanation with our submission? Please advise.

Yes.

16) Specifically, on page two of the RFP it is noted: 'Firms must be registered as investment advisors with the Securities and Exchange Commission under the Investment Advisors Act of 1940".

We would like to note for your consideration that Commodity Trading Advisors ("CTAs") or Commodity Pool Operators ("CPOs") (if a CTA is managing investment pools) are the investment professionals responsible for Managed Futures investment pools and are regulated by the CFTC as opposed to the SEC. Pure Managed Futures pools (as opposed to some recently established mutual funds which allocate up to 25% of their investments in offshore vehicles which then invest in Managed Futures strategies) require much broader disclosure documents than those in the hedge fund universe who are regulated by the SEC. Some hedge fund managers who happens to use Futures Contracts in their overall investment strategy might have to register as an RIA with the SEC and the CFTC, however, the overwhelming majority of assets in the Managed Futures space (and only true Managed Futures investment profile) is provided by CFTC registered managers.

As a result we would respectfully submit that if the Fund is looking for a Managed Futures strategy to compare to other hedge fund strategies the RFP should be amended to include CTAs who are registered as CPOs as regulated by the CFTC.

Thank you for this information. Please feel free to submit your response as we consider this situation.

Unconstrained Equity Search

1) Please define unconstrained?

Generally, the Plans envision unconstrained managers as falling into two categories, Opportunistic and Defensive, though other styles may be considered.

Opportunistic Unconstrained managers have the ability to capitalize on their views of the entire stock market, both domestic and abroad, without being tied to a benchmark, thus allowing for added diversification and return. Performance is dependent on manager skill, but should provide return potential in-line with broad markets, with added downside protection.

Defensive Unconstrained managers have the ability to capitalize on their views of the stock market as they relate to capitalization, style and sector/industry without the constraints of a benchmark, thus allowing for added diversification and return, though with a focus on downside protection. Performance should be less volatile than benchmark-constrained equity mandates, but should protect on the downside and may lag in up markets.

2) What is the preferred benchmark for the mandate?

There is not a preferred benchmark for the mandate.

3) What is the preferred peer group for the mandate?

There is not a preferred peer group for the mandate.

4) Do you have a style preference for the unconstrained equity mandate?

There is not a preferred style preference for the mandate. All styles will be considered.

5) Will you consider a US All Cap Growth strategy for the unconstrained equity mandate?

Yes.

6) Will you consider a separate account?

Yes, the Plans will consider any vehicle that supports daily valuation and any other contractual requirements of the recordkeeper as outlined in Exhibit A.

7) Will you consider an institutional mutual fund?

Yes.

8) What is an acceptable investment vehicle for this mandate and if a commingled fund is acceptable, are there limitations regarding your clients percentage of ownership of that fund?

Any vehicle that supports daily valuation and any other contractual requirements of the recordkeeper as outlined in Exhibit A would be considered.

9) Would a global equity strategy that invests in closed end funds which are priced daily be acceptable to your client?

Yes.

10) Regarding Section V, Question Q. your table shows GIC sectors; can we edit the table to show sectors as classified by our firm's proprietary classification system in order to include both equity and fixed income securities?

Yes. If you feel there is a better way of classifying the sector exposure of your portfolio then please feel free to substitute.

11) We were curious to learn whether low volatility equity strategies would be appropriate for this unconstrained search given an objective of market-like returns net of fees yet with up to 40% less volatility?

Yes, low volatility equity strategies will be considered.

12) Would this be a separate account or a mutual fund in terms of the structure you would be looking for the selected mgr to accomodate? I know a ways back when we managed fixed income assets for the plan we were one of several managers in a stable value option and Great West rolled all of the underlying separate accounts up into one participant directed fund. The underlying assets were managed in separate accounts.

The Plans would consider any vehicle that supports daily valuation and any other contractual requirements of the recordkeeper as outlined in Exhibit A.

13) Would it be safe to assume there would be an on-site presentation required if selected as a finalist and then semi-annual servicing where a representative from the investment team would be required, or would a CSO suffice in some situations.

It is anticipated that semi-finalist phone interviews will take place in October with the possibility of finalist in-person interviews occurring in late October.

Passive Searches

1) We have a question regarding the Indiana DC RFP for the Smid Cap Equity product. Are these new assets in a new fund or is this a rebid for existing assets?

The Passive U.S. Small/Mid Cap Equity manager search is a result of a recent decision to change the manager structure of the custom Target Date Funds only. Therefore, assets will be mapped from existing Target Date Fund balances.

2) As an active equity manager, this search seems to suggest we would not be considered. Can you clarify your interest in a response from our firm?

Active equity managers will not be considered for the Passive searches.