

Investment Advisor RFP Questions and Responses

The following are questions sent to the Board of Regents as of Friday, August 21 by prospective consultants. Questions are listed in order of receipt unless combined with a similar question.

1. One of the Advisory Services listed on page 3 states, "Review and evaluate endowment and operating pool investment performance. Present formal quarterly investment performance reports to the Board." Are there any reporting or return calculation requirements in connection with any of the following portfolio types?
 - a. Cash and Daily Liquidity
 - b. Internally Managed
 - c. Restricted Bonds

Performance reporting is limited to externally managed pools, and would not include the above portfolios.

2. Understanding the Board uses a private markets strategic partner for manager selection in private markets, are there private market (or alternative market) search and selection services requested for this mandate?

None that are anticipated at this time.

Will the board consider making direct private markets partnership investments or will all direct partnership investments be made through the Neuberger Berman custom account?

No direct investments are anticipated during the 3-year contract term with Neuberger Berman.

How many private markets strategic partners has the Board approved?

Please refer to quarterly investment report for a full list of fund of fund commitments.

3. Does the Board of Regents have certain required contract terms and conditions? If so, will these be made available to potential bidders?

The Board of Regents has a standard professional services contract that we will provide to interested bidders. This format may not meet all the needs of this solicitation. The contract would be negotiated between the Board and the successful bidder.

4. In the request for proposal document on page 7, there is a question that states "During the last five (5) years, has the Bidder had a contract for services terminated for any reason? If so, provide full details related to the termination." Are you referring only to terminations where there was a breach in contract that led to the termination?

The question is not limited to terminations based on breach of contract.

5. Do you have any specific issues in regards to your current consultant? Why is the search being conducted at this time? Is there dissatisfaction with Wilshire or the assigned Wilshire consultant? If so, in what areas? If there is no dissatisfaction with the Wilshire relationship, what attributes of a potential replacement consultant might cause the members of the Board to make a change at this time?

No. According to Iowa Code §262.9 (18), 681 IAC §8.8, and Regent Policy Manual §7.03(G), the Board is required to issue Requests for Proposals (RFP) to select an investment advisor. The Iowa Administrative Code policy requires that this be done at a minimum of every five years.

6. What do you think is the single most important characteristic of an investment consulting firm?

The Board selects Firms based upon a number of criteria, including demonstrated competence, qualifications, written and verbal communication skills, and reasonableness of proposed fees, among others.

7. Will you require asset allocation studies on the University of Iowa's, Iowa State University's and University of Northern Iowa's operating pool and endowment fund?

Will you also require asset allocation studies on the Externally Managed Diversified Operating Pool, Externally Managed Long-Term Endowment and Externally Managed Intermediate-Term Pool?

Advisory Services includes conducting a full review of asset allocation plans annually for the externally managed pools.

Do you require quarterly reporting on each investment pool?

Yes, including the short bond fund.

8. Will you require performance measurement on the University of Iowa's, Iowa State University's and University of Northern Iowa's operating pool and endowment fund, the Externally Managed Diversified Operating Pool, Externally Managed Long-Term Endowment and Externally Managed Intermediate-Term Pool, and on the underlying investment managers?

Advisory Services include review and evaluation of all externally managed endowment and operating pool investment performance. Although pool allocation targets and fund managers are duplicated between UI and ISU, timing of pool implementations as well as pool additions, distributions, and rebalancing does vary and results in different return profiles.

Advisory Services include providing documented due diligence monitoring of investment managers, and review and evaluation of investment manager performance

9. Do you anticipate making any changes to the asset allocation strategy of the Funds? Are you considering any new asset classes, including absolute return/hedge funds? If yes, would these be made directly or through a fund-of-funds/strategic partnership relationship?

The role of the investment advisor includes regular communication on investment opportunities and strategies that include periodic review and evaluation of asset allocation of investment pools and specific recommendations with regard to maintaining or modifying investment strategies.

Please refer to the Board investment policy which lists futures and options contracts as not permissible.

10. What is the most important investment issue your Funds are currently facing?

The role of the investment advisor is to identify and assess current and potential market and portfolio risks.

11. Is consulting on private markets excluded from this RFP? Does this exclude both private equity and private real estate?

The role of the investment advisor is to collaborate with Board-approved private markets strategic partners. In March of 2015, the Board approved Neuberger Berman to manage a custom account across the private market space.

12. What are the annual fees for the existing contract that the Board is paying to its current consultant? Is there a budget for this fee going forward? If so, please describe.

In FY 2015, fees were approximately \$253,000. The budget is based on the negotiated fee.

13. Can you confirm that there are 18 distinct investment pools?

The Board is seeking investment advisory services for the externally managed pools. There are 4 distinctly different strategic investment pools – long term pool, intermediate pool, operating pool, and a short bond pool. For performance purposes, there are 6 pools to report on – two Endowment Portfolios (UI and ISU), 1 Diversified Intermediate Term Portfolio (UI), two Operating Portfolios (UI & ISU), and a Short-Term Fixed Income Portfolio (UI).

14. Is there a unique investment policy statement for each investment pool? If not, please clarify?

All pools are governed by the one Board Investment Policy and each individual investment pool has been authorized by the Board. Differences in pool investment strategies are based on the time horizon of the funds within that particular pool.

15. How many meetings does the Board anticipate the consultant will attend each year? Is there a schedule of 2015 meetings available?

The Board works on a fiscal year of July to June. The consultant typically attends 4 Board meetings per year, at least one of which is telephonic and the consultant does not need to

be present to give the report. This does not include additional meeting that may be required; see question #16 below.

The FY 2015 and FY 2016 calendars are available here: <http://www.regents.iowa.gov/Meetings/dates.html>. The consultant usually reports at the March, June, September and December (generally telephonic) meetings.

16. How many ad hoc meetings did you have in 2014; how many were in-person vs. conference call?

The number of ad hoc meetings does vary dependent on market conditions and fund manager performance factors. At the University of Iowa, we typically have 3-4 ad hoc meetings each year and at least one is in-person. Iowa State University rarely has in person ad hoc meetings and contacts our investment advisor on an as needed basis. The University of Northern Iowa invests in the University of Iowa's long-term pool, intermediate-term pool and short-term pool. UNI has not required any in-person meetings. UNI has rarely contacted the investment advisor by telephone.

17. How many customized reports on specific investment matters have you requested over the past two years and can you provide a few examples of the topics?

We have not requested any customized reports, but investment questions posed to our investment advisor have often resulted in graphical representations of underlying analysis typically related to asset allocation and the efficient frontier.

18. For how long has the Iowa Board of Regents used Wilshire Associates as general investment consultant?

Since May 1996

19. Does the Board view consultant independence as an important issue?

The written code of ethics/conduct or a set of standards for professional conduct are important.

20. Is a single custodian bank utilized across all investment portfolios? Which bank(s) are used?

UI has a custody agreement with Wells Fargo, and all endowment pool accounts are in custody. The intermediate diversified pool and operating pool investments at UI have a limited number of custody accounts given the number of mutual funds utilized in those pools. Cash allocations in those two pools also include bank products across several banks. Statements of those accounts are sent directly to the Board investment advisor. Iowa State University also has a custody agreement with Wells Fargo and all of our long term endowment pool accounts and our short term pool with the exception of the short term diversified pool are in custody. The University of Northern Iowa invests in the University of Iowa's pools as explained in question 16 above.

21. Other than this consultant search, what are the current investment issues being discussed or contemplated by staff and the Board members?

No specific action plan is currently in place, but UI is seeking further information and education of multi-asset/multi-sector strategies.

22. Is the board open to a discretionary consulting relationship or is this strictly for non-discretionary consulting services?

The Board is not looking for an OCIO relationship.

23. Can you please identify your current custodian and whether you utilize unitized accounting services for any of the asset pools? Are you open to a change in service providers? We have found that many universities are seeking administrative efficiencies and cost savings by pooling their investments and utilizing unitized accounting to maintain separate accounting of the underlying pools. Are you open to exploring this and other ideas for greater administrative ease and potential cost savings?

Current custodian is Wells Fargo. There is no unitized accounting services. We are open to learning more about unitizing and other service providers.

24. Can you please clarify the type of investment structures that are actively being utilized today and whether this varies by asset class? Sample of structures for the current portfolios might include SMAs (Separately Managed Accounts), Mutual Funds, Exchange Traded Funds, or some combination. Are you open to exploring pricing options that may provide cost savings and better performance?

Separately managed accounts limited to the endowment pool – Delaware (small cap core), Chicago Equity & Reams (both domestic fixed income). All other funds are mutual or commingled, and a large portion are index funds. No ETF's at this time. Open to exploring other options.

25. Can you please provide a copy of your formal Spending Policy if one exists?

Link to UI Spending Policy below – See “Distribution of Income” section. <http://treasury.fo.uiowa.edu/policies-and-procedures/internal-procedures>

Iowa State University's spending policy for Endowment Funds is a 4.25% annual spending policy. Distributions are made quarterly at a rate of 1.0625%. The basis for the distribution is the three year moving average of the market value of the endowment portfolio. Excess earnings are reinvested in the endowments. The University of Northern Iowa observes the University of Iowa's spending policy.

26. Can you please provide more insights regarding your development program and the overall growth goals and development needs for the different pools of assets?

None of the Universities anticipate any material change in balances.

27. The RFP requests audited financial statements be submitted. We are a private company and do not ordinarily disclose this information publically. What suggestions do you have?

For those firms invited to make an oral presentation, please make available a hard copy of your financial report for review on the day of the oral presentation. This will not be copied; but reviewed and returned the same day. Should there be time constraints that do not allow adequate time for review, we would request the opportunity to review at an agreed upon site before final contract negotiations are completed.

Please note that in the Proposal Section D 3 – Proposal Process, Fee Structure has been **amended** to remove the phrase “as detailed in the “Cost of Services” section. The sentence now reads, “Firms shall provide a clear, detailed and inclusive cost proposal”.