

Firm Questionnaire

**for**

**STANDALONE CONVERTIBLE**

**INVESTMENT STRATEGY**

**June 19, 2020**

**State of Connecticut**

**Office of the Treasurer**

**Deadline: July 10, 2020**

**Firm Questionnaire**

The following must be incorporated and included with your response to this RFP. Submit your responses in the same order as the questionnaire, listing the question first (including the letter and number) followed by your answer.

* 1. **Firm Overview**

Please provide a firm overview. Please include the following:

* + 1. Your firm’s complete name and primary address.
    2. The name, title, address, telephone number and email address of a primary and an alternate contact person who is authorized to act for the firm for this RFP.
    3. A list of the other geographic locations of your offices and describe the functions performed in each of those offices.
    4. A brief history of your firm, including any parent organization.
  1. **Firm Ownership**

Please describe the firm’s ownership structure. Please include:

1. Percentages owned by employees and its distribution.
2. The name, relationship and percentage ownership of:
   1. Each parent organization
   2. Other affiliated organizations
   3. The three largest owners
3. A list of the percentage voting interest owned by the three largest owners.
4. If your firm is considered a minority or emerging investment manager
5. Any significant ownership changes, restructurings or personnel reorganizations over the past three years. Or if any are anticipated.
6. The parent company’s credit rating if your firm is part of a larger company. Additionally, if there is a parent company, please provide:
   1. Your firm’s separate credit rating if your firm is a separate legal entity
   2. An explanation on how are profits remunerated to the asset management group
   3. **Organization – Legal, Insurance, Audit and Data Security**
7. Within the last five (5) years, has your organization, or an officer or principal, or any key personnel that would be assigned to this engagement, been involved in any business litigation or other legal or regulatory proceedings? If so, provide an explanation and indicate the current status or disposition.
8. List substantive issues raised by independent auditors in your Form ADV, SAS 70 / SSAE 16 and issues published in your annual audited financial statements or Form 10K (if applicable). Provide a copy of the most recent Form ADV, annual report, Form 10-Q (if applicable) and SAS 70 / SSAE 16 and label appropriately.
9. Please describe the level of coverage for errors and omissions insurance, professional liability insurance, and cyber insurance. List the insurance carrier(s) supplying the coverage.
10. Does the firm carry fiduciary liability insurance? If so, what is the level of coverage?
11. Describe anti-fraud and security measures that are currently in place to ensure the integrity of the firm’s database, transfer and storage of electronic information, and the protection from unauthorized access.
12. Who is the firm’s auditor? Has the firm changed auditors in the past three years? If so, explain.
    1. **Clients:**

Quantify the number of public pension fund clients in total and the number that have over $1 billion in assets.

Please provide the following information for assets under management (AUM) in U.S. dollars and number of clients for each of the past three (3) years ending December 31, 2019:

1. Firm-wide
2. Total convertible assets under management in U.S. dollar amounts. Please specify active versus passive
3. The total assets under management in U.S. dollar amounts of the proposed strategy

Quantify convertible client accounts both gained and lost in convertible mandates over the past three years. Provide both the number of clients and U.S. dollar amounts, identifying the benchmark used for each mandate.

Provide the number of clients who have terminated a convertible mandate with your firm in the past three years ending December 31, 2019. Detail reasons for terminations.

List any business or product offerings in incubation or recently closed.

* 1. **Personnel – Qualifications, Roles and Compensation:**

1. Provide an organizational chart. Please include the firm’s executive management, senior investment officers, and the convertible team. Denote geographic locations. Describe experience, education, training, and certifications. Include number of years of industry experience and firm tenure for each employee listed in the organizational chart.
2. Supply information on any programs and/or initiatives that the firm has in place that supports minorities and/or women in the workplace.
3. Identify any emerging, minority, and/or woman-owned brokers or other businesses that are utilized in the management of the proposed product. Describe these relationships and provide an indication of the volume of business conducted through these firms.
4. Quantify the number of investment professionals employed by the firm across all strategies. Provide a table listing convertible investment professional turnover (hires and departures) for the past three (3) years, specifying roles and responsibilities. Please ensure that this list includes all the decision-making professionals in portfolio management, research, and trading.
5. Quantify the total number of employees dedicated to convertible strategies. Provide position descriptions for each of the investment professionals dedicated to convertible strategies and detail how they are organized. Include how portfolio managers and analysts interact. To what extent do you leverage other teams within your organization (if applicable)? To what extend are convertible research analysts leveraged to other strategies?
6. Please describe how the firm’s compensation structure for key persons related to the strategy aligns their interests with that of the State of Connecticut.
   * + 1. Is any part of compensation deferred? If so, what proportion is deferred and for how long?
       2. How do you measure the performance of research analysts? And how is it reflected in their compensation? What is the link between bonus pay and performance?
       3. If equity ownership is possible, on what basis is it determined and distributed? How is the departure of a shareholder treated?
   1. **Investment Process/Strategy:**
7. Please describe your firm’s philosophy and strategy for managing convertible assets. Please include:
   1. What market anomaly or inefficiency are you trying to capture?
   2. Why do you believe this philosophy will be successful in the future? Provide any evidence or research that supports this belief.
   3. How has this philosophy changed over time?
   4. Under what, if any, circumstances would you deviate from the disciplines associated with this philosophy?
   5. To what extent do you consider ESG factors in your investment process?
8. Please explain your firm’s research and decision-making process as it applies to convertible mandates. Please include:
   1. The location(s) where such research is carried out and what specific research is conducted at each location.
   2. Details of any changes to the research process within the last 24 months.
9. Describe the portfolio construction process and ongoing management for your typical convertible mandate. Please describe your investment decision process and valuation approaches for the following:
   1. Asset allocation
   2. Sector selection
   3. Security selection
   4. Hedging
   5. Credit quality
   6. Liquidity
10. How are investment strategy views constructed and how are these views translated into portfolios? Do the views translate into a model portfolio? If so, are all portfolio managers required to adhere to the model?
11. Which market factors drive performance? Please describe the inputs and processes you use to determine your views on interest rates, spreads, valuations, etc. Describe how you anticipate and react to market changes.
12. What advantage is there in investing in convertibles right now during the recent COVID-related volatility? How quickly do you anticipate market dislocations to close?
13. Please indicate what fundamental and quantitative factors are used to analyze a security and indicate their relative importance in the decision-making process. How is ESG integrated?
14. What investment screening tools or models do you use, if any? What factors are the screens based on?
15. What is your preferred benchmark?
16. Are there any sectors or securities that you strategically choose not to invest in? If so, please describe why.
17. What is/(are) the expected excess return target(s) for your convertible strategies? Quantify the expected alpha contributions by the different sources (sector, security selection, etc.).
18. Over what time horizon would you expect your strategy to meet performance objectives? Has your alpha target changed over time? If so, why?
19. How do you manage liquidity and volatility in convertible portfolios? How frequently do you conduct stress-testing and scenario analyses?
20. What is the expected tracking error of your convertible product? What has the actual tracking error of each product been over the past five years? Please explain any deviations versus expected tracking error. Has your tracking error changed over time? If so, why?
21. In what market environments does your strategy perform the best/worst?
22. What is the total asset capacity for the subject strategy? At what level would you consider closing the product to new clients?
23. Describe the decision process used to make sell decisions for securities. When would your firm deviate from its sell disciplines? Identify those who have ultimate decision-making authority.
24. Describe the annual portfolio turnover for this mandate over the past three years and the sources of that turnover.
25. Rate your firm’s reliance on the following sources of research (average rating should approximate 3):\*
    1. Internal
    2. Broker-Dealer
    3. Third Party Fundamental Research
    4. External Economists
    5. Company Visits
    6. Other (state)

*\* 1=very import, 5=unimportant*

1. Describe your firm’s trading functions. Who would be responsible for trading this portfolio? (Individuals should be listed on organizational chart and their qualifications highlighted.)
2. Describe your firm’s use of derivatives and the types of instruments used in full discretion mandates. Please complete the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Quarter** | **Gross derivative exposure** | **Net derivative exposure** | **Maximum Gross exposure within quarter** | **Maximum Net**  **exposure within quarter** |
| 1Q19 |  |  |  |  |
| 2Q19 |  |  |  |  |
| 3Q19 |  |  |  |  |
| 4Q19 |  |  |  |  |

1. Does the strategy utilize leverage in the form of cash borrowing? If so, please describe and complete the table below. What is the expected and maximum leverage employed in the strategy?

|  |  |  |  |
| --- | --- | --- | --- |
| **Quarter** | **Market**  **Value** | **Leverage (%) at end of quarter** | **Maximum Leverage (%) within quarter** |
| 1Q19 |  |  |  |
| 2Q19 |  |  |  |
| 3Q19 |  |  |  |
| 4Q19 |  |  |  |

1. Describe your firm’s risk management processes and the personnel involved. Include discussion of investment, compliance and operational risks and procedures.
2. Does your firm propose utilizing soft dollars in the management of this account? Can your firm manage this account without the use of soft dollars? Please explain.
3. Does your firm trade with any affiliated broker/dealer? If so describe the relationship and the safeguards in place to maintain fiduciary responsibility for managing funds.
4. What guidelines and practices does your firm employ in managing its counterparty risk?
5. Please provide any additional information on your investment process/strategy that you believe is pertinent to your selection for this mandate.
6. **Performance History:**
7. Provide monthly convertible composite(s) (or representative account) performance, both gross and net of fees, since inception in an attached Microsoft Excel document as of March 31, 2020. Investment performance results provided must be Global Investment Performance Standards (“GIPS”) compliant and GIPS compliance must be confirmed on submission.
8. Provide detailed performance attribution and summary write ups for the convertible composite (or representative account) for twelve months ending March 31, 2020 as well as since inception. A chart detailing positive and negative attribution by factors is suggested.
9. **Organization Relationships:**

Identify all subcontractors the Respondent plans to hire in the performance of the services outlined in this RFP, and explain how your firm will ensure that those subcontractor(s) comply with all contractual requirements, including those related to confidentiality, double fees and conflicts of interest.

1. Subcontractors—If you intend to use any subcontractors to deliver any of the services, please identify the subcontractors as follows:
   1. Name of firm
   2. Address of firm
   3. Primary contact person and key personnel (Name, title and contact information)
   4. Specific services the firm will provide
   5. Ownership of firm
   6. Three (3) references
2. **References:**

Provide the following information from three (3) current or recent (within the past 12 months) convertible clients: company/state name and address, contact name, title, phone number and email address and a brief statement of services rendered.

1. **Financial Condition:**

If the Respondent is a firm or corporation, include the two most recent annual financial statements prepared by an independent Certified Public Accountant, and reviewed or audited in accordance with Generally Accepted Accounting Principles (USA). If a respondent has been in business for less than two years, such respondent must include any financial statements prepared by a Certified Public Accountant, and reviewed or audited in accordance with Generally Accepted Accounting Principles (USA) for the entire existence of such respondent or corporation. Non-U.S. firms must provide audited financial statements that comply with International Accounting Standards.

1. **Consultant Database:**

Meketa Investment Group (“Meketa”), the investment consultant who will assist the Office of the Treasurer in evaluating this RFP, utilizes the eVestment universe as part of its evaluation process. Please populate the eVestment universe with your product information as part of this RFP submission. For those investment managers who do not currently report into eVestment please visit this link:

<https://www.evestment.com/submit-my-data>.

Submitting data to eVestment is free and eVestment will be pleased to answer questions related to how to populate its database. (**Note**: eVestment data input is in addition to the required responses to the questions posed in this RFP.)