

**Request for Proposals**

**for**

**INVESTMENT MANAGEMENT SERVICES**

**DOMESTIC EQUITY FUND**

**U.S. SMALL CAPITALIZATION EQUITY**

# (Section VIII - Form and Content of Responses)

**January 8, 2021**

**State of Connecticut**

**Office of the Treasurer**

**Deadline: February 19, 2021**

# Section VIII Form and Content of Responses

**A**. **Instructions:**

1. **Official Agency Contact.** All communication**s** with the Office of the Treasurer must be directed to the Official Agency Contact. The Official Agency Contact for purposes of this RFP isPaul Osinloye, Principal Investment Officer, who can be reached at [PFM.RFP@ct.gov](mailto:PFM.RFP@ct.gov).
2. **Respondent’s Representatives**. Respondents must designate an authorized representative and one alternate. Provide the name, title, address, telephone, and e-mail address for each representative.
3. **Communications Notice**. All communications with the agency or any person representing this agency concerning this RFP are strictly prohibited, except as permitted by this RFP. Any violation of this prohibition by respondents or their representatives may result in disqualification or other sanctions, or both.
4. **RFP Timeline (Schedule of Events)**. The following timeline, up to and including the Deadline for Submitting Proposals, shall be changed only by an amendment to this RFP. Dates after the Deadline for Submitting Proposals are target dates only.

*January 8, 2021* RFP Released

*January 22, 2021* Deadline for Questions

*January 29, 2021* Deadline for Responses to Questions

*February 19, 2021 – 5 PM EST* Deadline for Submitting Proposals

*Week of May 10, 2021* Respondent Selection and Commencement

of Contract Negotiations

*June 30, 2021* Approximate Start of Contract

1. **Inquiry Procedures**. Respondents may submit questions about the RFP to the Official Agency Contact (PFM.RFP@ct.gov) on or before 5 PM EST on January 22, 2021. Questions must be asked via e-mail. **Questions will not be accepted over the telephone.** Anonymous questions will not be answered. The agency reserves the right to provide a combined answer to similar questions and to decline to answer any question. The agency will distribute official answers to the questions, in the form of a written amendment postedon the DAS website at https://portal.ct.gov/das and the agency’s website at https://portal.ct.gov/OTT, not later than January 29, 2021.
2. **Confidential Information***.* Respondents are advised that the Office of the Treasurer is a constitutional Office of the State of Connecticut and its records, including responses to this RFP, are public record.

All responses to this RFP shall become the property of the Treasurer and will be kept confidential until such time as a contract is executed or negotiations for the award of such contract have ended. Thereafter, submissions are subject to public inspection and disclosure under the State of Connecticut Freedom of Information Act, Connecticut General Statutes Sections 1-200 et seq., as may be amended from time to time (“FOIA”).

If a respondent in good faith believes that any portion of its submission is exempt from public disclosure under FOIA, then, in order to maintain confidentiality, the Respondent (a) should include an explanation containing the precise statutory basis for such exemption from disclosure under FOIA and (b) the material claimed to be exempt should be clearly marked “Confidential.” The Treasurer will use reasonable means to ensure that such confidential information is safeguarded but will not be held liable for any inadvertent or intentional disclosure of such information, materials or data. Submissions marked as “Confidential” in their entirety will not be honored as such and the Treasurer will not deny public disclosure of all or any part of such submissions so marked. Only information marked “Confidential” that is accompanied with a precise statutory basis for such exemption under FOIA shall be safeguarded.

By submitting information with portions marked as “Confidential,” the Respondent (a) represents that it has a good faith reasonable belief that such information is exempt from disclosure under FOIA pursuant to the precise statutory basis for such exemption, and (b) agrees to reimburse the Treasurer for, and to indemnify, defend and hold harmless the Treasurer, its officers, fiduciaries, employees and agents from and against, any and all claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs and expenses including, without limitation, attorneys’ fees, expenses and court costs of any nature whatsoever arising from or relating to the Treasurer’s non-disclosure of any such designated portions of a proposal if disclosure is deemed required by law or court order.

1. **Minimum Submission Requirements**. At a minimum, proposals must (a) be submitted before the deadline, (b) follow the required format, (c) be complete, and (d) include the required Attachments. **Proposals that fail to meet these minimum submission requirements may be disqualified and not reviewed further.**
2. **Contract Compliance Requirements***.* The State of Connecticut is an Equal Opportunity and Affirmative Action employer and does not discriminate in its hiring, employment, or business practices. The State is committed to complying with the Americans with Disabilities Act of 1990 (ADA) and does not discriminate on the basis of disability, in admission to, access to, or operation of its programs, services, or activities.

The Treasurer is required to consider the following factors in considering the Respondent’s qualifications: (a) success in implementing an affirmative action plan; (b) promise to develop and implement a successful affirmative action plan; (c) submission of bidder employment information indicating that the composition of the Respondent’s workforce is at or near parity in the relevant labor market area; or (d) promise to set aside a portion of the contract for legitimate minority business enterprises.

1. **Meetings with Respondents***.* At its discretion, the agency may convene meetings with respondents in order to gain a fuller understanding of the proposals. The meetings may involve interviews, presentations, or site visits. If the agency decides meetings are warranted, the Official Agency Contact will telephone respondents to make an appointment. Any such meetings are tentatively scheduled for March – April 2021.
2. **Required Format and Content for Responses:**All proposals must follow the required format (below) and address all requirements listed in the prescribed order, using the prescribed numbering system. ***Failure to follow the required format may result in the disqualification of a proposal.***
3. **Cover Letter**

The proposal should contain a cover letter with the following information:

* 1. Respondent Information
     1. Name of Respondent
     2. Business Location
     3. Mailing Address
  2. Respondent’s Representatives

The Respondent must designate an authorized representative and one alternate who may speak and act on behalf of the Respondent in all dealings with the agency, if necessary. Provide the following information for each individual.

* + 1. Name and title
    2. Telephone Number
    3. Email address
  1. A statement that the Respondent has the capability to provide the requested services.
  2. A statement that the Respondent meets the minimum qualifications set out in **Section V**. If the Respondent does not meet any of the minimum qualifications, the Respondent must identify which qualification(s) not met and make a detailed case as to why the Treasurer should consider the Respondent’s firm and product.
  3. A statement that the Respondent has thoroughly reviewed the RFP and acknowledges and accepts all terms and conditions included in the RFP.
  4. A statement that the Respondent has read and accepts the agency’s Investment Management Agreement and conditions in their entirety and without amendment, or has submitted proposed revisions.
  5. A statement that the Respondent has read and accepts the State’s contract compliance requirements.
  6. Whether your firm is considered a "diverse" investment manager?

The cover letter must be signed by a person authorized to bind the Respondent to all commitments made in its proposal.

2**. Fee Proposal**

1. Provide your fee proposal for managing and reporting on a separate account of U.S. small capitalization equity investments ranging from $100 million of assets up to $500 million. The State reserves the right to negotiate fees with the selected respondent.
2. Does your firm provide fee adjustments for any of the following?
   * + 1. Most Favored Nations
       2. Legacy
       3. Multiple Mandates
3. **Compliance**
4. **Legal and Policy Attachments***.* Complete all Legal and Policy Attachments in accordance with the directions provided. Failure to complete the Legal and Policy Attachments may result in the Proposal not being reviewed. The Legal and Policy Attachments A through M, may be found on the Treasurer’s website: https://portal.ct.gov/OTT/Doing-Business/Compliance-Reporting
5. Please state whether your firm employs a Compliance Officer. If so, what are the duties of the Compliance Officer? Describe your firm’s policies and practices for monitoring employee ethics and compliance with law and firm policies. To whom does your Compliance Officer report? If you do not have a Compliance Officer, please describe who has this responsibility and how it is integrated into the individual’s other responsibilities. This information should also be indicated on the required organizational chart.
6. **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**
2. Provide your firm’s complete name and primary address, include 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. Briefly list the other geographic locations of your offices and describe the functions performed in each of those offices.
3. Provide a brief history of your firm, including any parent organization.
   1. **Firm Ownership**
      * 1. Describe the firm’s ownership structure. Detail the percentages owned by employees and its distribution. What percentage does the majority owner hold? Please provide the name, relationship and percentage ownership of:
      1. Each parent organization
      2. Other affiliated organizations
      3. Describe the concentration of the firm’s economic ownership by listing the percentage owned by the three largest owners.
      4. Describe the concentration of the firm’s voting ownership by listing the percentage voting interest owned by the three largest owners.
         1. Describe any significant ownership changes, restructurings or personnel reorganizations over the past three years. Are any significant organization changes anticipated? If yes, please describe.
         2. If your firm is part of a larger company, provide the parent company’s credit rating.
         3. Is your firm a separate legal entity? Does it have a separate credit rating?
         4. If your firm is part of a larger company, how are profits remunerated to the asset management group?
         5. Is your firm considered a minority or emerging investment manager?
   2. **Organization – Legal, Insurance, Audit and Data Security**
4. 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.
5. 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.
6. 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.
7. Does the firm carry fiduciary liability insurance? If so, what is the level of coverage?
8. 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.
9. Who is the firm’s auditor? Has the firm changed auditors in the past three years? If so, explain.
10. **Clients:**

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

2. 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, 2020:

* + 1. Firm-wide
    2. Total U.S. small capitalization equity assets under management in U.S. dollar amounts
    3. The total assets under management in U.S. dollar amounts of the proposed strategy

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

4. Provide the number of clients who have terminated a U.S. small capitalization mandate with your firm in the past three years ending December 31, 2020. Detail reasons for terminations.

1. List any business or product offerings in incubation or recently closed.
2. **Personnel – Qualifications, Roles and Compensation:**
3. Provide an organizational chart for the firm’s executive management, senior investment officers, and the U.S. small capitalization team. Denote geographic locations. Describe experience, education, training, and certifications; number of years of industry experience; and firm tenure for each employee listed in the organizational chart.
4. Supply information on any programs and initiatives that the firm has in place that supports minority and/or women in the workplace.
5. 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.
6. Quantify the number of equity investment professionals employed by the firm across all strategies. Provide a table listing equity 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.
7. Quantify the total number of employees dedicated to U.S. small capitalization strategies. How many dedicated U.S. small capitalization investment professionals do you have and how are they organized? Provide position descriptions for each of the investment professionals dedicated to U.S. small capitalization strategies. To what extent do you leverage other teams within your organization (if applicable)?
8. Describe the roles of the portfolio managers and analysts and how they interact. Include analyst coverage of sector, regional, country, currency, etc.
9. What other duties do research analysts have? Do they provide input into strategies besides U.S. small capitalization equity? If so, please explain.
10. 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.
11. Is any part of compensation deferred? If so, what proportion is deferred and for how long?
12. 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?
13. If equity ownership is possible, on what basis is it determined and distributed? How is the departure of a shareholder treated?
14. **Investment Process/Strategy:**
15. Please describe your firm’s philosophy and strategy for managing U.S. small capitalization equity assets.

a. What market anomaly or inefficiency are you trying to capture?

b. Why do you believe this philosophy will be successful in the future?

c. Provide any evidence or research that supports this belief.

d. How has this philosophy changed over time?

e. Under what, if any, circumstances would you deviate from the disciplines associated with this philosophy?

f. To what extent do you consider ESG factors in your investment process?

1. Please describe your firm’s competitive advantage in managing U.S. small capitalization mandates and why you believe that advantage is sustainable.
2. What is your preferred benchmark?
3. How does your firm define small/mid-cap, small-cap and micro-cap in terms of total market capitalization?
4. Given today’s environment, what is your optimal U.S. small capitalization blend allocation?
5. What are your views on opportunities outside your preferred benchmark? Are they an integral part of your strategy? What has been the trailing 3-year average of out-of-benchmark positions in percentage terms?

1. What is/are the expected excess return target(s) for your U.S. small capitalization strategies? Quantify the expected alpha contributions by the different sources.
2. Over what time horizon would you expect your strategy to meet performance objectives? Has your alpha target changed over time? If so, why?
3. What is the expected tracking error of your U.S. small capitalization 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?
4. What is the total asset capacity for the U.S. small capitalization strategy? At what level would you consider closing the product to new clients?
5. In what market environments does your strategy perform the best/worst?
6. Please explain your firm’s research and decision-making process as it applies to U.S. small capitalization mandates. State the location(s) where such research is carried out and what specific research is conducted at each location.
7. 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?
8. Describe the portfolio construction process for your typical U.S. small capitalization mandate.
9. Which market factors drive performance? Please describe the inputs and processes you use to determine your strategy. Describe how you anticipate and react to market changes.
10. Please indicate what fundamental/quantitative factors are used to analyze a security and indicate their relative importance in the decision-making process.
11. If applicable: are country and currency decisions made separately? Explain. What is your maximum limit on country and currency exposure in existing mandates?
12. What investment screening tools or models do you use, if any? What factors are the screens based on?
13. How do you manage liquidity and volatility in U.S. small capitalization portfolios? How frequently do you conduct stress-testing and scenario analyses?
14. 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.
15. Are there any sectors, regions, or securities that you strategically choose not to invest in? If so, please describe why.
16. Describe the annual portfolio turnover for this mandate over the past three years and the sources of that turnover.
17. How many country and/or company visits do you conduct on an annual basis and with whom do you meet?
18. 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 important, 5=unimportant*

1. Have there been any changes to the research process within the past 24 months? Please explain.
2. Describe your firm’s trading functions. Who would be responsible for trading this portfolio? Include securities trading. (Individuals should be listed on organizational chart and their qualifications highlighted.)
3. Describe your firm’s risk management processes and the personnel involved. Include discussion of investment, compliance and operational risks and procedures.
4. For Investment Managers, provide the following General Policy Limits:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Guidelines (Y/N)** | **Range** | **Absolute or Index Relative?** |
| Cash Position |  |  |  |
| Market Capitalization ($million) |  |  |  |
| Position Size |  |  |  |
| Sector Exposure |  |  |  |
| Beta |  |  |  |

1. 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
2. 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.
3. What guidelines and practices does your firm employ in managing its counterparty risk?
4. Please provide any additional information on your investment process/strategy that you believe is pertinent to your selection for this mandate.
5. **Performance History:**
6. Provide monthly U.S. small capitalization composite(s) (or representative account) performance, both gross and net of fees, since inception in an attached Microsoft Excel document as of December 31, 2020.
7. Provide detailed performance attribution for the U.S. small capitalization composite (or representative account) for twelve months ending December 31, 2020 as well as since inception. For the most recent twelve months, quantify the positive and negative results related to decisions about country exposures, currency, hedging, issue selection, etc. where applicable. A chart detailing positive and negative attribution by factors is suggested.
8. Provide quarterly sector, market cap, country, and/or currency allocations (%) for U.S. small capitalization composite (or representative account) for the past twelve (12) quarters ending December 31, 2020. Compare to the weights of the Russell 2000 Index and other relevant indices (as defined in Section II Scope of Services)
9. Investment performance results provided must be Global Investment Performance Standards (“GIPS”) compliant and GIPS compliance must be confirmed on submission.
10. **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) U.S. small capitalization equity 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.)