



RFP 20-26-04 Alternative Risk Premia (ARP) Strategies

Questions & Answers

1. Would trend following strategies be considered for this mandate?

No, SURS has a dedicated Trend allocation and will not consider Trend strategies for this search.

2. Are you considering only alternative risk premia strategies, or would you consider other types of uncorrelated strategies that are more alpha oriented?

The benchmark for these mandates is T- bills + 2%. Uncorrelated strategies that can exceed this benchmark and meet the stated criteria would be considered.

3. Is the 5-year live track record waived if the proposed strategy is a carve-out of an existing strategy with 20+ year track record?

Yes, we would accept a carve out of an existing strategy with a 5- year or longer track record.

4. We are trying to get a better feel for any parameters you have set for ARP following your “Investment Market Research Request – Diversifying Strategies questionnaire” from June. Do you have a specific level of return you are targeting? (i.e. SOFR + 200 bps?)

The benchmark for these mandates is T- bills + 2%.

- a. Do you have specific liquidity parameters? (i.e. Monthly or Quarterly liquidity)

We prefer monthly liquidity but quarterly would be acceptable.

- b. Do you have specific fee parameters?

SURS is open to fixed and/or performance-based fees. Fees will be a consideration in the evaluation process.

5. Will this search consider, and encourage the submission of, a proposal for an open-ended hedge fund strategy, primarily investing in US and European junior CLO tranches (e.g. equity and mezzanine debt) of 3rd party CLO managers, the majority of which have been acquired in the secondary, and that uses credit index and currency hedges?

No, a CLO strategy would not be considered for our CRO portfolio or this search.

6. Is there a numerical target range for equity beta being considered?

There is not an explicit target however we are looking for return streams that are uncorrelated to the equity markets.

7. We understand that SURS anticipates adding up to four (4) Alternative Risk Premia accounts to be included in your diversifying strategies portfolio. In order to deliver a highly positively convex alternative risk premia strategy for tax management and return enhancement that also has the benefits of tail-risk hedging and asset and liability hedging, the fund is structured as an ETF to access the non-cleared fixed income volatility markets. This is different from the standard bilateral centrally cleared OTC counterparty risk that SURS has discussed in their minutes. There is no publicly available confirmation that the State Universities Retirement System (SURS) pension fund currently maintains ISDA master agreements to trade OTC derivatives.

The ETF wrapper would provide access to the OTC fixed income volatility market for SURS without the risk of collateral and margin requirements, and provide access to the long OTC fixed income volatility market as an ETF with a single CUSIP product. The ETF has delivered returns that have little to no correlation with other asset classes, in line with the RFP requirement: “strategies with low or no equity beta”.

Pursuant to Chapter 40, Act 5, Article 1, of the Illinois Compiled Statutes, SURS previously appointed Northern Trust Company as master custodian (“Master Custodian”) under the State Universities Retirement System Master Trust (the “Master Trust”). The ETF is easily accessible via SURS’ custodian. And the ETF mechanism will allow SURS to buy and sell at the ETF’s NAV without transaction costs or fees using the primary market (similar to mutual funds).

Can you please let us know if you would consider a highly unique access ETF for this RFP?

We are not currently considering ETF vehicles for this search.

8. The definition of Alternative Risk Premia (ARP) appears to vary across institutions and lacks a universally accepted framework. In this context, would SURS classify a multi-factor equity market neutral strategy as an ARP strategy?

Strategies that meet the stated criteria and are uncorrelated to equity markets will be considered.

9. Is there a structural preference? (ETF, 40act, SMA, etc)

SURS would consider a commingled fund, a fund of one or a separate account for this mandate.

10. Would a strategy focused on harvesting different Alt Risk Premia solely in G10 currencies be considered within the scope of this search?

Strategies that meet the stated criteria and are uncorrelated to equity markets will be considered.

11. What is your preferred measure of the equity beta? This is to clarify the “low to no equity beta” characterizing the accounts in your diversifying strategies portfolio.

We typically review beta to equity indexes. The goal is to have return streams uncorrelated to the equity markets.

12. What is the target volatility or targeted range for the strategy you are seeking?

We do not have a stated volatility target for these mandates.

13. We previously submitted a proposal in response to the Systematic Trend RFP since we employ a systematic approach to harvesting Alt Risk Premia in currencies. Would submitting a proposal for the same strategy (Alt Risk Premia focused on G10 currencies) be appropriate for this search? The volatility target can be calibrated depending on the client’s objectives.

We will not consider Trend strategies for this mandate. If your strategy is not a true Trend Following strategy you are welcome to resubmit it for this search.

14. We believe we meet all minimum requirements but wanted to confirm requirement number 4 – ‘Proposing firm must be either a) registered as an investment adviser under the Investment Advisers Act of 1940 or b) a “bank” as defined in the Investment Advisers Act of 1940. If not, the firm must factually explain how and why they claim to be exempt from registration. The firm will promptly advise SURS if it, at any time, is not so registered. The firm must submit its full Form ADV (Parts I and II)’.

- a. Our firm relies on Private Fund exemption from registration with the SEC. Both entities are Exempt Reporting Advisers. Can you please confirm this satisfies minimum requirement #4?

All responders are responsible for ensuring they meet the eligibility requirements posted in the RFP. SURS cannot provide any pre-response opinions as to whether a specific responder meets said requirements. Responders are encouraged to consult with their own attorneys for legal advice and guidance when it comes to interpreting the legal requirements of the Illinois Pension Code as referenced in the RFP.

15. Can you provide clarity to what is considered “low beta” in the context of the Alternative Risk Premia strategies?

0.25 beta or lower