RFP 20-22-01 Long Volatility & Tail Risk

Questions & Answers

1.)	Would you have a copy of the RFP in a word format? Although it notes that it is a .docx when you try to download it, it downloads as a pdf.
	• A copy of the RFP as a Microsoft Word document has now been posted to the SURS website alongside the PDF version.
2.)	Appendix G – Morningstar Diversity Data Toolkit – Is it possible to submit our diversity data in an excel spreadsheet instead of posting on Morningstar? Our organization is located in different legal jurisdictions across the globe which may prevent us from providing granularity regarding some of the data that is requested.
	• We encourage respondents to submit diversity data to Morningstar as well, but firms that fill out both the SURS Diversity Disclosure and DEI Questionnaire, but not the Morningstar data will still be considered. If the level of detail requested is more granular than what is available, please fill out the forms with the best available information.
3.)	**Questions Relating to Size of Mandate, Notional Exposure or Number of Managers:** -What is the size of the notional exposure that SURS is looking to hedge? -What is the potential size of the mandate? - How large in terms of notional protection (or the equity assets being hedged) is the potential mandate? Is it defined based on an expected loss or some other function? - What is the estimated notional assets under management that the strategy is intended to cover? Also, what is the expected funding level that will support the notional assets? - Will one or more managers be hired? - Does SURS have an estimated investment minimum amount per manager hired for this mandate? - Is there a maximum allocation to a single manager? How many managers ideally would be selected for the program?

	• The potential sizing of the mandate is still to-be-determined, however, here are some guiding points:
	  ○ The sizing of this program will vary depending on the type of implementation. In particular, the implementation will likely be with fully funded, long volatility-oriented strategies or via premium-spend overlay approaches that are focused on protecting the aggregate global equity portfolio.
	  ○ If fully funded, managers should expect an allocation of $200-$400 million per mandate (up to two managers).

	○ If focused on protecting the aggregate global equity portfolio (i.e., premium spend, overlay), the aggregate global equity portfolio eligible for protection is currently at ~$9 billion. For these strategies, the annual premium spend/budget will be determined in consultation with potential managers later in the process. Of note, if SURS elects to protect additional "growth" assets, the current value of the Broad Growth portfolio is ~$17bn.
4.)	Will you accept joint responses? Specifically, there would be a sub-advisor with investment discretion and an advisor providing back and middle office.
	• Yes, so long as the contracted entity is a fiduciary to SURS. Of note, a high degree of complexity as it relates to the engagement may negatively impact the proposal during our review.
5.)	Will you accept track records and AUM from strategies that are defensive and risk averting but not identical to the customized portfolio that will be offered in the RFP response to meet minimum qualifications?
	• Yes. Track records from products that can be categorized as long volatility or tail risk strategies may be used to meet minimum qualifications, even if they differ from the solution proposed in the RFP response.
6.)	For the return stream provided in answer to question 64 in the performance section, will you accept a hypothetical track record of a customized portfolio?
	• Live return streams are preferred if available, but you may provide a hypothetical track record alongside or in place of live numbers if that is the best data available (note that simulated track records do not count for minimum qualification purposes). Please label hypothetical/simulated return as such when submitting.
7.)	Is there a portfolio risk or volatility target range, and investment return target for a product to be considered for this search?
	• No, there is not.
8.)	We currently advise a $200M+ long volatility and tail risk mandate on behalf of a pension client within their ~$600M "drawdown management portfolio." The total value of the equity portfolio that the "drawdown management portfolio" is designed to protect is greater than $7B. ***Can you please confirm that this meets your minimum criteria for protection on a notional basis of total public equity assets?***
	• Yes, we would consider this scenario to meet the minimum qualification #1, on the basis of "*protection on a notional basis of total public equity assets of $2 billion or more*."
9.)	Under the investment advisory agreement with this client, we currently recommend investments in two customized separate account vehicles for which we are responsible for all structuring, IMA negotiations and risk constraints via investment guidelines, as well as day to day oversight, monitoring, portfolio stress testing and scenario analysis. As advisor, we provide this oversight to the customized separate account vehicles to ensure that the vehicles forming the mandate's combined portfolio continuously offer a profile consistent with mandate objectives (i.e. crisis return targets) and in compliance with all mandate constraints

	(e.g. bleed levels, Greek risk, single factor risk, etc.).***Can you please confirm that assets under advisement does, in this case, meet the minimum criteria?***
	• Yes, we would consider this meeting the criteria. Of note, a high degree of complexity as it relates to the engagement may negatively impact the proposal during our review.
10.)	How much is SURS prepared to lose in rising markets? How is this scaled relative to a payoff in a drawdown? This will help us tailor the program.
	• At this point, SURS has not determined all of these parameters. SURS is seeking to minimize negative carry and maximize reliability and convexity. For this mandate, SURS is most concerned with global equity drawdowns greater than 10-20% that occur in a relatively short period of time (e.g., a few days to two months). Of note, the final parameters will be determined in consultation with potential managers later in the process. SURS recognizes the tradeoffs of threshold/attachment with premium/carry costs. As further background, this mandate will represent a partial replacement for Long Treasury exposure that SURS has historically used as a "first responder" during the initial legs of material drawdowns.
11.)	How does SURS plan to evaluate the ongoing performance of the underlying candidates once selected?
	• This will depend on the implementation that is selected. For fully funded, long volatility-oriented strategies, performance will potentially be evaluated relative to comparable manager-composite indices (e.g., EurekaHedge Long Volatility) as well as performance during equity drawdown periods vs. expectations. SURS fully recognizes this is a challenging exercise. For premium-spend approaches, performance will largely be relative to pre-set criteria (e.g., premium spend, conditional drawdown expectations, etc.).
12.)	How does SURS value different attachment points of drawdowns relative to their cost (-5%, -10%, -20%, etc.)? This will help us tailor the program.
	• SURS is seeking to minimize negative carry and maximize reliability and convexity. For this mandate, SURS is most concerned with global equity drawdowns greater than 10-20% that occur in a relatively short period of time (e.g., a few days to two months). Of note, the final parameters will be determined in consultation with potential managers later in the process. SURS recognizes the tradeoffs of threshold/attachment with premium/carry costs. As further background, this mandate will represent a partial replacement for Long Treasury exposure that SURS has historically used as a "first responder" during the initial legs of material drawdowns.
13.)	What time period is most important to SURS in terms of hedging and evaluation (1Mo, 1Yr, 3YR, 10Yr, etc.)? This will help us tailor the program.
	• At the most basic level, SURS is most concerned with global equity drawdowns greater than 10-20% that occur in a relatively short period of time (e.g., a few days to two months). Should drawdowns continue past that point or on an extended timeline, SURS maintains other strategies (e.g., systematic trend following) that we expect to begin to accrue positive returns in our Crisis Risk Offset (i.e., defensive/diversifying book) class subsequent to the payoff design for this mandate. • SURS is also open to differing viewpoints to designing this mandate and corresponding parameters and goals.

14.) How long does SURS intend to be committed to the program?

- SURS has a significant long term strategic allocation to the Crisis Risk Offset asset class and expects that to be the case for the foreseeable future.

15.) How much has the current CRO program made or lost SURS over the time it has been implemented? This will help us tailor the program.

- Since its 11/30/2019 inception, as of 9/30/2021, the SURS CRO portfolio has returned +2.2% on an annualized time weighted net-of-fees basis. See attached document for the monthly return series and market values for CRO and sub-classes from Dec 2019 through present.

16.) What was the performance of the current CRO program for March 2020 and for the year of 2020? This will help us to tailor the program.

- Net of fees returns for the SURS CRO portfolio and its components for March 2020, first quarter 2020, and CY 2020 are summarized below:

	March 2020	Q1 2020	Calendar Year 2020
Crisis Risk Offset	1.6%	5.2%	4.2%
Systematic Trend Following	5.0%	3.6%	1.5%
Long Duration	6.8%	21.2%	16.3%
Alternative Risk Premia	-8.0%	-9.6%	-6.9%

17.) How much transparency will be available to the public on various aspects of both the RFP process and ongoing details of the program? While there is information in the RFP document on this, please provide any additional commentary you can.

- In addition to the details provided in the RFP, information on SURS investments is available to the public through the FOIA process, SURS Board of Trustees Meetings, SURS' responses to various industry surveys, and through periodic information posted to the SURS website.

18.) When you are evaluating fee proposals and using basis points, are you scaling those based on the payoff you are seeking to achieve or some other metric? Do you factor in the capital allocated to a strategy as a cost or are you viewing the strategy as a line-item? This will impact our fee proposal.

- We will seek to adjust and analyze the universe of submissions on as close to an apples-to-apples comparison as possible. This may include adjustments for volatility, payoffs, opportunity costs, etc. Ultimately, fees will be examined in a holistic fashion based on the net benefit to the total SURS portfolio.
- We do not feel that how we evaluate the fee proposals should impact how you design your specific proposal. We encourage respondents to justify the fee proposal if they feel necessary.

19.) Question 30 asks *"How is the strategy/portfolio optimized?"* - Could you please give a little more color on what you mean here?

- We do not feel this requires any further explanation.

20.)	Question 35 asks *"Do you take a top-down or bottom-up approach to implementation? Is the strategy built in a discretionary or systematic fashion?"* - Could you please give a little more color on what you mean by "approach to implementation"?		
	• We do not feel this requires any further explanation.		
21.)	Question 64: Given the highly customized and unique nature of Tail Risk Hedging Overlay mandates, may managers submit multiple monthly, net and gross of fees, performance history track records? Additionally, as we have written extensively on, the framework to properly understand the performance and success of tail risk overlays should also include a cash flow based analysis. Therefore, may managers also provide supplemental reporting on the cash flow based history of each mandate to provide a more complete response to the performance request?		
	• Yes. Multiple track records may be submitted in response to this question. Also, additional information such as cash flow history and analysis, or other supporting documents are welcome as well.		
22.)	Are there envisioned to be restrictions on asset class usage for potential strategies?		
	• No, however, we are primarily focused on global equity (e.g., ACWI) drawdowns and would like to maximize reliability during those drawdowns. Basis risk will be a consideration of our evaluation.		
23.)	Are there envisioned to be restrictions on OTC instrument usage?		
	• This will vary depending on the vehicle type. There may be restrictions if an SMA vehicle is utilized, however, we do not envision any restrictions if a fund vehicle is utilized. • However, we do expect the managers to maintain a high degree of liquidity for monetization and we recognize the challenges in doing so with more custom or esoteric OTC instruments. • Of note, SURS currently does not maintain corresponding ISDA agreements which would likely be required.		
24.)	Can you describe the intended liquidity of the strategies?		
	• The greater the liquidity, the better. At a bare minimum, we would expect monthly liquidity with minimal (e.g., two weeks or less) notice. This program will be a crucial piece in the SURS rebalancing program, especially during equity drawdown periods. The willingness of a manager to strike a NAV and provide ad hoc liquidity during drawdown periods would also be appropriate.		
25.)	Can you comment on the intended benchmarks for the program?		
	• This will depend on the implementation that is selected. For fully funded, long volatility-oriented strategies, performance will potentially be evaluated relative to comparable manager-composite indices (e.g., EurekaHedge Long Volatility) as well as performance during equity drawdown periods vs. expectations. SURS fully recognizes this is a challenging exercise. For premium-spend approaches, performance will largely be relative to pre-set criteria (e.g., premium spend, conditional drawdown expectations, etc.).		

26.)	Our asset management group has many large U.S. pension clients in various strategies across our organization. The RFP states in the Preferred Criteria section to list three existing U.S. public pension firm clients. Questions 61 asks for the names of the three largest U.S. public pension plans (or most equivalent) for which you manage this product. Is it a requirement to have U.S. public pension plan clients in this strategy?		
	• It is not a minimum requirement to have a US public fund in the strategy. If you don't have public fund clients in the proposed or similar strategies, for this question, please list references including the most similar organizations to SURS or the largest clients in the strategy. If you cannot list references for confidentiality reasons, please explain so in the response.		