



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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TRENTON, NJ 08625-0290

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Governor

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KIM GUADAGNO
Lt. Governor

TO: Potential Bidders

FROM: Christopher McDonough
Director

DATE: August 20, 2014

RE: Private Equity Investment Consulting Services Request for
Proposal – Questions and Answers
Amendment #2

Note: Some of the questions have been paraphrased in the interest of readability and clarity. Each question is referenced by the appropriate RFP page number(s) and section where applicable.

Question: 1.

Section: General
Page: n/a

Question: Would you please provide the current annual fee of your current consultants?

Answer: There is one consultant that is paid \$382,500 annually.

Question: 2.

Section: General
Page: n/a

Question: Can you provide the fee being paid to your current private equity consultant?

Answer: \$382,500 per year.

Question: 3.

Section: General
Page: n/a

Question: What are the annual fees for the existing contract that the DOI is paying to its current private equity consultant and what are the services they provide for fees received? Are there project-related fees associated with the current arrangement that are not part of the base fee?

Answer: \$382,500 per year. Broadly speaking, the current consultant provides sourcing, due diligence, monitoring, and performance measurement services. There are no project-based fees paid to the current consultant.

Question: 4.

Section: General
Page: n/a

Question: Can you provide us with the average number of private equity funds committed to in prior years (per annum)?

Answer: Approximately 9-12 investments per year.

Question: 5.

Section: General
Page: n/a

Question: Are there potential changes to the target allocations?

Answer: The Division is not aware of any proposed changes to the target allocations. However, the State Investment Council reviews and revises its asset allocation plan at least once a year. As of June 30, 2014, DOI's allocation to private equity was 8.72%. The FY 2015 target for private equity is set at 9.25%.

Question: 6.

Section: General
Page: n/a

Question: Are there potential changes to the governance structure (i.e., giving autonomy to staff on co-investment or other decisions)?

Answer: The Division is unaware of any proposed changes to its governance structure.

Question: 7.

Section: General
Page: n/a

Question: Are there anticipated shifts between investments allocated to fund investments, co-investments, or direct investments?

Answer: Investment decisions are based on the opportunities available at any given point in time. It likely that DOI will continue to employ a healthy mix of co-investments and fund investments.

Question: 8.

Section: General
Page: n/a

Question: Is there a movement to prune the existing manager roster and forge fewer and larger relationships with select investment managers?

Answer: DOI has been pruning its portfolio. It is likely that DOI will have a handful of large/key relationships while also continuing to commit to smaller managers with excellent track records, niche strategies, and quantifiable value-add characteristics.

Question: 9.

Section: General
Page: n/a

Question: What is the current NAV and committed but uninvested capital in the existing program?

Answer: Through June 2014- Estimated NAV \$6.9 billion with \$4.1 billion in unfunded commitments

Question: 10.

Section: General
Page: n/a

Question: Is the RFP intended to be a due diligence process, or is the RFP intended to result in a change in consultants?

Answer: The RFP is not a due diligence exercise, but is expected to result in a contract award.

Question: 11.

Section: General
Page: n/a

Question: Who is the current private equity consultant? Is the current consultant being considered as part of this process?

Answer: Strategic Investment Solutions. The incumbent is invited to submit a proposal in response to this RFP.

Question: 12.

Section: General
Page: n/a

Question: Do you have any specific issues in regards to your current private equity consultant?

Answer: There are no specific issues that bidders need to address in their proposal.

Question: 13.

Section: General
Page: n/a

Question: Do you currently use fund of funds or direct funds for your alternative investments?

Answer: Both.

Question: 14.

Section: 1.1
Page: Page 5

Question: Please confirm that a single consultant may be selected as both Primary Consultant and Performance Measurement Provider? Does the DOI have a preference for, or against, selecting a single consultant to fill these two roles, given there are potential efficiencies in obtaining these services from the same consultant?

Answer: Yes; one consultant can be awarded contracts as both the Primary Consultant and the Performance Measurement provider. At this time, DOI has no preference.

Question: 15.

Section: 1.3
Page: Page 6

Question: What is DOI's targeted and current actual allocation to private equity?

Answer: As of June 30, 2014, DOI's allocation to private equity was 8.72%. The FY 2015 target for private equity is set at 9.25%.

Question: 16.

Section: 1.4
Page: Page 7

Question: Is the DOI currently using the format described on Page 7 of the RFP (are there currently primary, secondary, and performance reporting consultants)?

Answer: No. Currently, there is one consultant.

Question: 17.

Section: 1.4
Page: Page 7

Question: Is an affiliate of an existing private equity manager for the DOI eligible to compete to become the Performance Measurement Provider? As the DOI evaluates potential managers for future private equity investment mandates, will the affiliation of a potential manager with the Performance Measurement Provider be considered a negative factor in evaluating that potential manager? If "Yes," could you please give what guidance you can on the weighting of the affiliation as a negative factor.

Answer: Potential conflicts of interest should be disclosed in the bidder's proposal and will be evaluated by the Evaluation Committee. The Director shall select future private equity investments in accordance with his fiduciary responsibilities.

Question: 18.

Section: 1.5.2 & 4.2
Page: Page 8 & Page 23

Question: Is it permissible to send the RFP to the physical address at 50 West State Street, 9th Floor Trenton, NJ 08608-0290? Fed Ex will not deliver if there is a PO Box in the address.

Answer: Yes. If sending by overnight courier, omit the PO Box number. If sending by USPS, use the PO Box number and not the physical address.

Question: 19.

Section: 1.5.2
Page: Page 8

Question: Is there a specific time of day attributable to the due date?

Answer: Proposal must arrive by 3:00 pm.

Question: 20.

Section: 2.2
Page: Page 14

Question: What is the composition of the Investment Policy Committee?

Answer: IPC consists of members of the State Investment Council appointed by the Chair. There are currently 5 members of the Committee.

Question: 21.

Section: 3
Page: Page 15

Question: How many investment staff are dedicated to the private investments portfolio? What are their roles and responsibilities?

Answer: There are 5 members of the staff who cover Private Equity, Real Estate, and Real Assets. The staff responsibilities include, but are not limited to, portfolio monitoring, sourcing, and managing due diligence.

Question: 22.

Section: 3.1.2
Page: Page 15

Question: Regarding review of portfolio risk, can you please clarify the level of detail and types of portfolio risk currently being reviewed?

Answer: Examples of risk analysis that DOI currently utilize and expect to continue to evaluate include, but are not limited to, various exposure reports (geography, industry, type of security, vintage year, company name, etc), loss ratio, debt ratios, etc.

Question: 23.

Section: 3.1.2D
Page: Page 15

Question: Are there specific risk characteristics on which the DOI is seeking analysis?

Answer: Examples of risk analysis that DOI currently utilize and expect to continue to evaluate include, but are not limited to, various exposure reports (geography, industry, type of security, vintage year, company name, etc), loss ratio, debt ratios, etc.

Question: 24.

Section: 3.1.2D
Page: Page 15

Question: Lists as a required duty that the Primary Consultant conduct a review of portfolio risk and provide a detailed, written report of results and recommendations. Since risk is not a standard, defined measure within the private equity area, what are the expectations for such a report? It is focused on exposures, performance measures such as loss ratios or other metrics?

Answer: Examples of risk analysis that DOI currently utilize and expect to continue to evaluate include, but are not limited to, various exposure reports (geography, industry, type of security, vintage year, company name, etc), loss ratio, debt ratios, etc.

Question: 25.

Section: 3.1.3

Page: Page 16

Question: What database do you currently utilize? Would an external database be appropriate or does it need to be internal?

Answer: Staff monitors all incoming solicitations, manager meetings and funds in the market but an external database is needed to supplement this. DOI expects both internal and external databases.

Question: 26.

Section: 3.1.3.1A

Page: Page 16

Question: What is your annual commitment pace? On average, how many manager searches do you perform each year? Do you expect these numbers to be any different going forward?

Answer: DOI commits to approximately 9-12 private investments per year. While DOI does not track the exact number of searches, it is estimated that DOI sources and performs in depth research of approximately 20 investments per year. It is expected that DOI will commit \$1.5 billion per year going forward.

Question: 27.

Section: 3.1.3.2A

Page: Page 16

Question: On average, how many due diligence projects are performed each year?

Answer: DOI is constantly searching and evaluating investment opportunities. While this metric is not tracked, it is estimated that DOI sources and performs in depth research of approximately 20 investments per year.

Question: 28.

Section: 3.1.3.2A
Page: Page 16

Question: How many due diligences would you expect the primary consultant to complete annually? How would the DOI determine the division of work between the primary consultant and the secondary consultant(s)?

Answer: DOI is constantly searching and evaluating investment opportunities. While this metric is not tracked, it is likely that DOI sources and performs in depth research of approximately 20 investments per year.
As stated in the RFP, the Secondary Consultant will perform consulting services on a per-project basis, depending on particular expertise and scheduling.

Question: 29.

Section: 3.1.3.2C
Page: Page 16

Question: Are real assets viewed as part of the private equity portfolio?

Answer: Yes.

Question: 30.

Section: 3.1.3.2C
Page: Page 16

Question: Would the DOI be seeking a review of a real assets fund or a physical asset (e.g., mine, infrastructure)?

Answer: Most likely funds, but could be a physical asset as well, although not likely.

Question: 31.

Section: 3.1.3.2D

Page: Page 17

Question: Are there any co-investments in the existing private equity portfolio?

Answer: Yes.

Question: 32.

Section: 3.1.3.3A

Page: Page 17

Question: When appropriate, negotiate business terms and appropriate structural incentives for proposed investments.

Does the State anticipate negotiating available capacity directly with targeted GPs or will they rely on the Consultant for this as part of the process of negotiating terms and conditions?

Answer: The Division typically negotiates terms and capacity itself; however, DOI does ask for assistance from its consultant occasionally.

Question: 33.

Section: 3.1.4

Page: Page 17

Question: Please confirm the scope of services for monitoring includes Real Assets and Private Equity only.

Answer: Correct.

Question: 34.

Section: 3.1.4A
Page: Page 17

Question: (Scope of Work – Primary Consultant - Portfolio Monitoring and Reporting), it states that the primary consultant will provide ongoing analysis and monitoring of fund managers...does this include the entire legacy portfolio as well as commitments undertaken under advice from primary consultant?

Answer: Yes.

Question: 35.

Section: 3.1.4A
Page: Page 17

Question: (Scope of Work – Primary Consultant - Portfolio Monitoring and Reporting), it states that the primary consultant will conduct organizational stability and performance audits of each fund manager, including onsite visits; is the primary consultant expected to conduct onsite visits with each manager from the legacy portfolio as well as managers committed to under advice from primary consultant?

Answer: Yes.

Question: 36.

Section: 3.1.4C
Page: Page 17

Question: Please clarify the expectations of the annual audits of each fund manager. Are you able to provide an example of a report from such a review? Would these on-site visits be separate from annual meetings?

Answer: DOI will not provide a report example. DOI expects its consultant to be up to speed and intelligent on all of its managers. That being said, DOI is indifferent with regard to how its consultant gets to that point (Annual Meeting, separate meeting, etc.)

Question: 37.

Section: 3.1.4C
Page: Page 17

Question: **At least annually or upon request, conduct organizational stability and performance audits of each fund manager, including onsite visits.**

Is it required that the Consultant visit each existing manager on-site annually or is the expectation that this will be done on an as-needed basis?

Answer: DOI wishes to provide clarity for requirement in Section 3.1.4C with respect to annual on-site visits with fund managers. Given the size of the portfolio, it is not feasible to conduct an on-site visit of each fund manager within the portfolio. DOI and the Primary Consultant shall devise a mutually agreeable schedule of annual on-site visits of specific funds within the portfolio, dependent on the needs and priorities of the portfolio at that time, and such on-site visits should include approximately 25% of the portfolio. At DOI's discretion, attending Annual Meetings may constitute an on-site visit.

Question: 38.

Section: 3.1.4C
Page: Page 17

Question: Given the significant time and financial cost that would be incurred with visiting all fund managers on an annual basis, can you please estimate the number of fund managers and frequency that onsite visits would be required? Does DOI anticipate onsite visits to be completed for a subset of fund managers or on a rolling basis, for example?

Answer: DOI wishes to provide clarity for requirement in Section 3.1.4C with respect to annual on-site visits with fund managers. Given the size of the portfolio, it is not feasible to conduct an on-site visit of each fund manager within the portfolio. DOI and the Primary Consultant shall devise a mutually agreeable schedule of annual on-site visits of specific funds within the portfolio, dependent on the needs and priorities of the portfolio at that time, and such on-site visits should include approximately 25% of the portfolio. At DOI's discretion, attending Annual Meetings may constitute an on-site visit.

Question: 39.

Section: 3.1.4E
Page: Page 17

Question: Please clarify the expectations of the topics covered in such reviews. Are you able to provide an example of a report from such a review?

Answer: Some of the topics to be reviewed include, but are not limited to, performance calculation methodology, verification of compliance procedures, governance, and information technology controls. DOI will not provide an example from a review.

Question: 40.

Section: 3.1.4G
Page: Page 17

Question: Review all cash flows and provide both a quarterly and fiscal year breakdown, including but not limited to all expenses, management fees and carried interest.

Since many GPs do not provide a fee, expenses, carried interest breakdown in the capital call notice, do you anticipate that the consultant will obtain these details from the GP directly on a periodic basis?

Answer: Yes.

Question: 41.

Section: 3.1.4H
Page: Page 17

Question: For the fund level summary performance data will the Primary Consultant be required to also reconcile with the Performance Measurement Provider to the extent different firms are used?

Answer: No.

Question: 42.

Section: 3.1.6
Page: Page 18

Question: How many in person meetings per year are anticipated? Do you have a preliminary schedule of the six IPC meetings, the six Council meetings, and the annual Advisory Board meeting?

Answer: It is anticipated that there will be at least six meetings that the Consultant shall attend in person. At the request of DOI, the Consultant shall be available to attend other in person meetings, for which there is no schedule. The Consultant is expected to attend the six anticipated IPC meetings via telephone. The SIC meeting schedule is presented to the SIC in January and the current schedule is available on DOI's website:
<http://www.state.nj.us/treasury/doinvest/calendar.shtml>

Question: 43.

Section: 3.1.6C
Page: Page 18

Question: Attend annual and/or advisory board meetings of the private equity investments as requested.

To what extent will the State rely on the Consultant for attending annual and/or advisory board meetings (e.g. a minority of funds upon request, most funds, or virtually all funds)?

Answer: Minority of funds upon request.

Question: 44.

Section: 3.2
Page: Page 18

Question: The duties of the Secondary Consultant include Sourcing. Can you explain how a secondary consultant would exercise and deliver on the described sourcing duty, particularly given that the primary consultant will also be providing sourcing services and the secondary consultant will be based on all-inclusive hourly rate? For example, there are innumerable hours underlying the sourcing activities that would result in a report of active/coming to market funds.

Answer: The Secondary Consultant will be used on an as needed or per-project basis for specific investments or a specific strategy. The sourcing/diligence conducted would only be delivered by the Secondary consultant.

Question: 45.

Section: 3.2
Page: Page 18

Question: Does the DOI currently have a secondary consultant, or a pool of secondary consultants?

Answer: No.

Question: 46.

Section: 3.2.2C
Page: Page 19

Question: (Scope of Work – Secondary Consultant – Portfolio Monitoring and Reporting), it states that the secondary consultant will conduct organizational stability and performance audits of selected fund managers, including onsite visit; is the secondary consultant expected to complete this task only for the managers it conducts due diligence on, or additional fund managers as well?

Answer: Primarily funds it has conducted due diligence on, but possibly other funds as well, which would be on a per-project basis.

Question: 47.

Section: 3.3.1A
Page: page 21

Question: If you can disclose it, please tell us who is the DOI custodian?

Answer: State Street Bank

Question: 48.

Section: 3.3.1A
Page: page 21

Question: Are the custodian's cash flow reports issued on a monthly basis?

Answer: Yes.

Question: 49.

Section: 3.3.1A
Page: page 21

Question: How many days after period-end are the cash flows issued?

Answer: Generally, in 7-10 business days

Question: 50.

Section: 3.3.1A
Page: page 21

Question: What are the technical specifications of the data feed from the custodian?

Answer: The Consultant will be provided access to the dashboard within the Custodian's system through which it can download pertinent data. Should the data be insufficient and a data feed be necessary, such specifications will be developed.

Question: 51.

Section: 3.3.1A
Page: page 21

Question: Does the custodian have any role in providing information about the underlying investments in the fund? If so, what information do they provide and what is the timing and form of delivery?

Answer: Currently, the custodian provides updated underlying fund investments on a quarterly basis, and the data is maintained within a secure database.

Question: 52.

Section: 3.3.1B

Page: Page 21

Question: Are there specific requirements for the analytical software beyond the ability to run customary portfolio metrics?

Answer: No.

Question: 53.

Section: 3.3.1C

Page: Page 21

Question: Do the agreements between DOI and its investees provide for any reporting to DOI beyond quarterly partnership capital statements, quarterly financial statements and managers discussion? Specifically, 1) are there any requirements for the underlying managers to report in standardized and/or machine readable format and 2) are there requirements of the managers to report operating metrics of the portfolio companies or properties? If yes to either 1) or 2), please provide whatever further information is available.

Answer: In few instances, DOI receives additional documentation above general reporting. In most cases, the additional reporting is due to the nature of investment (i.e separate accounts/strategic partnerships). Currently, there is no requirement in place for standardized reporting formats.

Question: 54.

Section: 3.3.2
Page: Page 21

Question: The language in this section (Evaluation and Reporting) appears to describe the process for evaluation of the bidders to the RFP rather than to describe the Evaluation and Reporting duties of the Performance Measurement Provider. Should this section be revised?

Answer: See Amendment #1
<http://www.state.nj.us/treasury/doinvest/pdf/Rfp/PERFPAmendment1.pdf>

Question: 55.

Section: 3.3.2
Page: page 21

Question: Would you please clarify the Evaluation and Reporting duties of the Performance Measurement Provider ?

Answer: See Amendment #1
<http://www.state.nj.us/treasury/doinvest/pdf/Rfp/PERFPAmendment1.pdf>

Question: 56.

Section: 4.5
Page: Page 25

Question: In section 4.5 "Forms Required with Proposal," it is stated that the required forms are attached to the RFP. I have not been able to locate the required forms in the document, please advise where the required forms can be found.

Answer: The forms are on DOI's website, listed under Required Forms. DOI's website can be accessed at:
<http://www.state.nj.us/treasury/doinvest/rfp.shtml>

Question: 57.

Section: 4.5.2
Page: Page 25

Question: Please clarify the exact form you intend to be filed. In searching, we found more than one.

Answer: There is only one form listed. The forms are on DOI's website, listed under Required Forms. DOI's website can be accessed at:
<http://www.state.nj.us/treasury/doinvest/rfp.shtml>

Question: 58.

Section: 4.5.4
Page: Page 25

Question: Please confirm that the Subcontractor Utilization Plan form is not required if the proposer does not intend to work with a subcontractor.

Answer: Correct.

Question: 59.

Section: 5.6
Page: Page 30

Question: Does "the sponsor's due diligence" refer to a data room? If not, in order to respond to the question "How does the firm's due diligence differ from the sponsor's," are you able to share an example of your due diligence or describe your process in order to compare?

Answer: Section 5.6F is hereby deleted and replaced with the following:
Describe the firm's approach to the due diligence process. Provide examples of two full due diligence reports that have been submitted to clients for private equity investments (redaction of fund names is acceptable).

Question: 60.

Section: 5.8
Page: Page 31

Question: Does a bidder for Performance Measurement Provider need to complete an all-inclusive hourly rate form for “special services”?

Answer: No. The requirement for an all-inclusive hourly rate only applies to special services by the Primary and Secondary Consultants.

Question: 61.

Section: 6.1
Page: Page 32

Question: The RFP notes the contract effective date is indicated on the signature page accompanying the RFP but this does not appear to be included. Can you please specify the anticipated contract effective date?

Answer: The anticipated contract effective date will not be set until a contract award is made.

Question: 62.

Section: 7.7
Page: Page 40

Question: Is there a specific weighting/grading tied to each evaluation measure?

Answer: Yes; this information is confidential prior to contract award.

Question: 63.

Section: Price Schedule
Page: Page 51 - 52

Question: Our organization does not charge clients on a time and charges basis. Therefore, we do not track client billable hours and hourly rates. We typically charge a retainer fee and commit whatever time is necessary to provide all of the services covered under the retainer. Will it present a problem as you evaluate our proposal if we do not include hourly rates and itemized costs?

Answer: A bidder should complete all relevant information necessary to review its bid. A bidder for Secondary Consultant will be ineligible if it does not provide an all-inclusive hourly rate. A bidder for Performance Measurement Services does not have to provide an all-inclusive hourly rate. A bidder for Primary Consultant must either provide an hourly rate for special services, or indicate in its proposal that all special services requested by DOI shall be included in its retainer fee.
