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## RFP FOR EMERGING MARKETS SMALL CAP PUBLIC EQUITY INVESTMENT ADVISORS QUESTIONS & ANSWERS

RFP Issue Date: 12/11/2024

Questions Due: 1/6/2025

Answers Posted: 1/15/2025

PFRSNJ received the following questions in regards to the Emerging Markets Small Cap Public Equity Advisors RFP. The PFRSNJ response immediately follows the question. All questions are posted below, similar questions may have one combined response.

1. *“RFP Section 1.1, Purpose and Intent, on page 1: How many different asset managers are being contemplated for your EM Small Cap mandate?”*

**Answer: The PFRSNJ currently expects to retain 3 to 5 active investment advisors.**

2. *“Section 1.1, Page 1 - What will be the custom index for this account? Is there specific identifier for the index that you could provide?”*
3. *“Regarding point 2.5 in section 2.0 (Scope of Services) on page 5, what is the ticker of the custom MSCI Emerging Small Cap Index?”*

**Answer (Questions #2 and #3): The identifying information for the custom MSCI Emerging Markets Small Cap Index will be provided upon the award of the mandate.**

4. *“RFP Section 1.1, Purpose and Intent, on page 1: What is the total AUM for your EM Small Cap mandate?”*

**Answer: As of December 31, 2024, the PFRSNJ had \$474 million in assets in the Emerging Markets Small Cap asset class.**

5. *“Section 1.3, Minimum Technical Qualifications of Bidder, sub-section 1.3.5. We currently have over \$500mm in available capacity in our EM Small Cap Strategy. Our total EM equity assets as an organization are \$1.2B, of which \$364mm is invested in EM small cap companies across all strategies. However, our EM Small Cap composite currently stands at \$82.8mm. Would our total exposure of \$364mm to EM small cap securities qualify us for our search? We meet all other minimum technical qualifications.”*
6. *“For requirement 1.3.5 pasted below, our emerging markets team manages two strategies – Emerging Markets Growth with approx. \$7 billion in assets and EM Small Cap with \$130 million. Combining the small cap exposure in the Emerging Markets Growth strategy with our EM Small Cap strategy would meet the minimum \$300 million requirement. Is that sufficient to meet this requirement?”*
7. *“Section 1.3.5, Page 2 - Will the Police and Firemen’s Retirement System of New Jersey accept a proposal for a strategy using an aggregation of Emerging Market Small Cap assets across two strategies, managed by the same investment team using the same philosophy & process, to meet the minimum AUM requirement? The team manages over \$800mm in Emerging Markets Small Cap assets as of 3Q2024, of which approximately \$280mm are in the dedicated Emerging Market Small Cap strategy as of 3Q2024.”*

**Answer (Questions #5, #6, and #7): No, the AUM of the proposed strategy/product must be at least \$300mm to meet the minimum technical qualifications.**

8. “Section 1.3.5 states that the assets under management of the proposed strategy must be at least \$300 million. Can you please clarify if this must be as of a specific date? Our dedicated Emerging Markets Small Cap strategy had assets of \$311 million but has fluctuated around the required \$300 million figure since that time. Our broader Emerging Markets Equity platform has assets under management of \$17.2 billion across a range of different underlying strategies (many which allocate to small cap companies) for clients globally. In addition, we manage a number of Asian Small Cap strategies totaling \$1.3 billion. Can you please advise if it is suitable for us to submit a response?”

**Answer: As of December 31, 2024, the AUM of the proposed Emerging Markets Small Cap strategy must be at least \$300 million.**

9. “Section 1.3.6, Page 2 - What does the Police and Firemen’s Retirement System of New Jersey deem as competitive absolute and risk adjusted performance? Which peer group is used for comparative purposes?”

**Answer: The PFRSNJ defines competitive absolute and risk-adjusted performance as consistent results exceeding the MSCI Emerging Markets Small Cap Index, net of fees, combined with strong risk-adjusted metrics. For comparison, the relevant peer group consists of actively managed Emerging Market Small Cap strategies.**

10. “RFP 1.4 Pre-Approval Requirements Section, Pages 2-3: Please clarify if the pre-trade approval process is applicable for new buys and sells/liquidations only, or will the same policy hold true for trims and adds?”
11. “RFP 1.4 Pre-Approval Requirements Section, Pages 2-3: Is there a de minimis trade size that would not require pre-trade approval?”
12. “Section 1.4 – *Pre-Approval Requirements*, located on page 2 of the RFP “*Given a quantitative investment process that rebalances/trades the portfolio daily, is the pre-trade approval required? Is there an option where a list of universe eligible securities could be provided in advance or other options for daily rebalanced portfolios in order to be eligible for the search?*””

**Answer (Questions #10, #11 and #12): Pre-trade approval is required for all purchases, sales, FX, futures, and forwards regardless of transaction size.**

13. “RFP 1.4 Pre-Approval Requirements Section, Pages 2-3: What are common reasons why a planned trade may be rejected (other than prohibited securities)?”

**Answer: A proposed trade will be rejected if it causes the individual portfolio to violate its investment guidelines or results in the overall PFRSNJ portfolio being non-compliant with Investment Regulations.**

14. “Section 1.4, Page 3 - Will the Police and Firemen’s Retirement System of New Jersey understand that any lag/delay in receipt of trade approvals could lead to other accounts trading earlier than their account?”

**Answer: This is understood by the PFRSNJ.**

15. “Section 1.4, Page 3 - How is the trade request submission transmitted (via email, FTP, etc.)?”

**Answer: The PFRSNJ has an sFTP delivery solution through our current service provider, Charles River Development.**

16. “Section 1.4, Page 3 - How is approval transmitted back to [investment advisor]? Who receives that information, so that we can expedite trade execution?”

**Answer: Approval will be returned via sFTP. The designated recipient(s) of the file or feed will be determined by the investment advisor.**

17. “Section 1.4, Page 3 - Is trade approval required to invest cash inflows from the Police and Firemen’s Retirement System of New Jersey, or to meet a cash outflows driven by the state?”

**Answer: The PFRSNJ utilizes a cash sweep program at its custodial bank. If the intent is to leave the assets in cash then no pre-trade approval is required. All other transactions require pre-trade approval.**

18. “Section 1.4, Page 3 - Is trade approval required to participate in corporate actions, for example spinoffs and rights issues?”

**Answer: No, pre-trade approval is not required for participation in corporate actions such as spin-offs or rights issues. However, approval is required for selling securities obtained as a result of the corporate action.**

19. “Section 1.4, Page 3 - May the account participate in secondary offerings for listed securities?”

**Answer: Yes, the account may participate in secondary offerings for listed securities.**

20. “Section 1.4, Page 3 - India currently has the largest country weight (29.8% on December 31) in the MSCI Emerging Markets Small Cap Index. Will the portfolio have the ability to invest in local India securities at the inception of the account? If not, when will it be set up?”

**Answer: The PFRSNJ will be open in India at account inception.**

21. “Regarding point 1.4 (Pre-Approval Requirements) in section 1.0 (Information for Bidders) on page 2, what is the nature of the pre-approval process for strategies that regularly rebalance and trade hundreds of securities in a systematic fashion?”

**Answer: All transactions require pre-trade approval. Approved trades are valid for 10 business days.**

22. “RFP 1.4 Pre-Approval Requirements Section, Pages 2-3: How quickly is the turnaround for accepting or denying trades?”

23. “From the RFP Section 2.6 on page 5: What is the turnaround time on pre-trade approval?”

24. “Section 2.6, Page 6 - Per the Scope of Services, it appears that the trade approval turn-around occurs “as quickly as is practical.” In your experience, what is the typical time period for the approval process for individual equity trades (minutes, hours, same-day, etc.)?”

**Answer (Questions #22, #23, and #24): Public equity trades generally have a turnaround time of 5 to 10 minutes. However, this timeframe can vary based on factors such as the number of new issue securities not yet registered in the PFRSNJ’s security master and the volume of pre-trade alerts that need to be addressed.**

25. “Section 1.5.2, Page 4-5 – Do the hard copies also need to arrive by the 3PM ET on February 7, 2025, or is only the electronic copies of materials required by that deadline with delivery of hard copies to follow?”

**Answer: Only electronic copies of the materials are required by the 3:00 PM ET deadline on February 7, 2025. Hard copies may be submitted after the deadline but are expected to arrive within a reasonable timeframe after the deadline. The contents of the hard copy must be identical to the contents of the electronic copy. If there are any deviations between the contents of the electronic copy and the contents of the hard copy, only the contents of the electronic copy will be considered as the bid proposal.**

26. “Section 2.10 sets out your requirements of the successful manager in respect of rectification of trading errors. We would like to clarify your expectations in this regard as it derogates from our standard approach to errors and potential errors. Specifically, we are seeking to understand the requirement to repurchase any securities that are purchased for your account that are not in compliance with the relevant laws, regulations, investment guidelines and policies. As currently drafted in the RFP document, we would not be able to repurchase such securities in the event they were purchased in error.

Our staff and our clients’ investments are subject to our Global Trade Error Policy which governs the correction of any trade errors caused by the action or inaction of an investment team breaching the standard of care that we observe to the trading process. The correction of such errors is effected in a manner consistent with the trade implementation and our fiduciary duty to our clients, which is to act in the best interest of our clients, including returning the client to an error free position and us bearing the costs of the error to the extent it is at fault. We appreciate that conceptually this may need to be explored further, but to the extent you are amenable to us submitting a response to your search we will be happy to share more detail on our approach to trade errors, our global policy and how the policy’s standards and requirements are met”

**Answer: The objective of trade error rectification is to ensure that the PFRSNJ is made whole for any losses incurred by the PFRSNJ in connection with trading errors. The PFRSNJ is open to considering alternative remedies, provided they align with the principles of making PFRSNJ whole and maintaining compliance with applicable laws, regulations, and guidelines.**

27. “2.0 Scope of Services, 2.5 (pg. 5) If permissible, could you please share if there will be any countries or markets included in the MSCI Emerging Markets Small Cap Index that would be excluded from this mandate? If yes, would you please provide a list of the excluded countries or markets?”

**Answer: No countries or markets represented in the MSCI Emerging Markets Small Cap Index are currently excluded from this mandate. However, the China A-Share market is not currently open.**

28. “2.0 Scope of Services, 2.5 (pg. 5) Could you please share a list of the prohibited and exclusionary securities referenced in the custom index?”  
29. “Section G-4, Page 5 - Are we able to review the list of prohibited investments?”

**Answer (Questions #28 and #29): The PFRSNJ will provide the prohibited investment list under separate cover upon the awarding of a mandate. The list contains fewer than 40 companies.**

30. “From the RFP Section 2.6 on page 5: What is the process for trade approval?”

**Answer: The pre-trade approval process, in accordance with state law, begins when an investment advisor submits the trade in the required format to the PFRSNJ using**

the investment compliance platform (currently Charles River Development). The proposed trades are then reviewed for errors and checked for compliance against the PFRSNJ rules and regulations. If the trade successfully passes the compliance check, it is approved and returned to the investment advisor electronically. Approved trades remain allowable for ten (10) U.S. business days and can be executed at any point within that time frame before requiring a new request for approval. For new issues, the investment advisor should submit data via email in the required format so that pre-trade approval can then flow through sFTP. The PFRSNJ expects to approve trades as quickly as practical.

31. “From the RFP Section 2.6 on page 5: Can pre-trade approval occur after standard business hours (after 5:00PM Eastern Time)?”

**Answer: No, trades are typically approved only between 9:00 AM and 5:00 PM ET. While approvals outside of these hours may occasionally occur, they are not guaranteed.**

32. “RFP 2.0 Scope of Services Section, 2.9.2 Page 6: To meet the reconciliation requirement to verify that accounting positions and pricing reconcile with the records of the PFRSNJ’s custodian by close of the third business day of each month, we would prefer to establish an electronic data feed with the custodian. We currently have existing electronic data feeds with several global custodians. Who is the custodian currently working with PFRSNJ? If an electronic data feed is not available, we can look to pull the information referenced as being available online on the first business day after month-end.”

**Answer: State Street is currently the custodian. State Street provides the ability to pull data daily.**

33. “Regarding point 5.6 (Evaluation Criteria) in section 5.0 (Proposal Evaluation) on page 18 and Attachment B, page B-12 (ESG Questions section), will there be additional ESG considerations imposed on the portfolio beyond those already incorporated in the benchmark?”

**Answer: There are no additional ESG considerations.**

34. “RFP Section Attachment B, question B.106 on page B-9: Is there a preference for vehicle type proposed (separately managed account, ETF, etc)?”

**Answer: The preferred vehicle type is separately managed account.**

35. “RFP Section Attachment B, the Performance and Portfolio Characteristics questions (starting at B.111) beginning on page B-10: Are you flexible if we provide performance dates “as of 9/30/24” or “as of 12/31/24”?”

**Answer: Provide data as of December 31, 2024.**

36. “Section E-4 - The trade approval process refers to a Target Quantity for each transaction. Is it permissible to transact a smaller (or larger) number of shares versus the Target Quantity?”

**Answer: It is permissible to transact a smaller amount than the target quantity, but transacting a larger amount is not permitted.**