



RFP-20-20-03 – Specialty Private Credit Consultant

Questions & Answers

1. How many commitments do you plan to make each year in Private Credit?
 - **SURS will work with the consultant to determine an appropriate pacing plan for private credit.**

2. How many staff members are/will be dedicated to private asset classes? How many focused exclusively on Private Credit?
 - **At this time, SURS has one Sr. Investment Officer dedicated to all of fixed income, including private credit. Additional Staff members spend a portion of their time on fixed income related items.**

3. Does SURS rely on its own sourcing or the consultant's for investment opportunities?
 - **SURS would primarily rely on the consultant for sourcing, however it is expected that Staff will work in collaboration with the consultant, and may occasionally recommend firms for consideration.**

4. Do you plan on investing in any direct Private Credit deals?
 - **Potentially, if a consultant is hired for a discretionary mandate.**

5. Do you plan on investing in any Private Credit funds in the secondary market?
 - **Potentially.**

6. What aspects of a discretionary relationship would be of most value to SURS?
 - **The ability to implement the pacing plan efficiently.**

7. Is there a general preference for discretionary or non-discretionary providers (all else equal)?
 - **All things being equal, the preference would be for discretionary providers.**

8. Section V of the RFP (Proposal Content) does not mention submitting Appendix F (Compensation and Economic Opportunity Disclosure). Are we required to complete this form?
 - **Yes.**

9. Regarding Appendix F, can you also clarify the scope of the data request? Private Credit only?

- **Private Credit.**
10. Will answers to the cumulative questions from all participants be shared broadly among all participants?
- **As stated in the RFP, questions will be consolidated into a single Q&A document and responded to by SURS on or about, June 26, 2020, by 4:30 p.m. CT. The Q&A document will be posted on the SURS web site at www.surs.org/rfp-investment. This document will include all questions received and SURS' answers to the same without indicating the source of the query.**
11. What is the rationale/background for creating an allocation to private credit?
- **The fixed income portfolio was recently reallocated between core mandates and liquid, global credit mandates. Staff believes a combined public/private credit allocation will maximize the benefits to the portfolio and feels that the current market environment is an opportune time to build a private credit program. In addition, Staff feels that the asset class provides an opportunity for consistent returns with additional upside potential, provides differentiated and diversifying sources of return, and strong downside protection through cash flow, structure, and asset coverage.**
12. In the RFP, you indicate that both non-discretionary and discretionary proposals are welcome. Does SURS have a preference?
- **Please see the answer to question #7.**
13. As of January 2020, Credit Fixed Income represented 14.1% of SURS total AUM. What are the underlying components of that allocation?
- **SURS currently has two public global credit managers, two emerging market debt managers, and one manager of managers that focuses on minority owned managers within the public credit opportunity set.**
14. Of the Credit Fixed Income allocation, what proportion of fixed income securities are sovereign debt, investment grade, high yield securities, leveraged loans, and emerging market debt?
- **The public credit fixed income managers have broad guidelines that allow investment across the areas above. The weights vary by manager.**
15. What is the current yield (Last Quarter Annualized) of your fixed income portfolio?
- **Approximately 6.5% for the public credit portfolio within stabilized growth.**
16. The Stabilized Growth portfolio is measured against a blended benchmark. What benchmarks are the fixed income securities measured against as part of the Stabilized Growth portfolio? What is the overall Stabilized Growth blended benchmark?

- **The benchmarks vary by manager. The policy benchmark for the credit portion of the stabilized growth asset class is 15% S&P LSTA Lev Loan Index / 25% Barclays Cap Global Agg Credit / 7.5% JPM CEMBI Broad / 7.5% JPM EMBI Global Diversified / 15% JPM GBI-EM Global Diversified / 30% BB Barclays Global High Yield.**

17. What resources does SURS plan to allocate to the private credit mandate?

- **Please see the answers to questions #2 and #21.**

18. Is there a set fees and expense budget for the private credit mandate?

- **No.**

19. Will the private credit mandate continue to sit within the Stabilized Growth portfolio?

- **Yes.**

20. How many investment professionals at SURS are dedicated to private credit today?

- **Please see the answers to questions #2 and #21.**

21. Could you please identify those persons included in the answer for Question #20? What is their experience, and where do they sit in the organization today?

- **The Sr. Investment Officer dedicated to all of fixed income has been at SURS for over ten years and has almost twenty years of experience across asset classes. He is a senior member of the investment team and reports to the Deputy CIO and works closely with the CIO.**

22. Are there SURS investment staff who would be dedicated specifically to the private credit mandate once the allocation is implemented?

- **Please see the answers to questions #2 and #21.**

23. What is the investment objective of the contemplated SURS private credit mandate?

- **Please see the answer to question #11.**

24. What are targeted net rates of return for the private credit mandate? And how does that compare to the current Stabilized Growth target?

- **Return expectations will vary based on market conditions. Initial conversations suggest a targeted net return of 9% - 11%, but it is expected that Staff and consultant will have conversations regarding the asset mix and the expected net rate of return.**

25. Are there targeted current income requirements from the private credit mandate? What level of current income is provided by the relevant allocation (5 – 7% of SURS portfolio) to Credit Fixed Income?

- **It is anticipated that the primary focus of the private credit portfolio will be yield oriented strategies where income is the primary source of return. SURS also**

anticipates including a lower allocation to special situation managers within the portfolio. Final targets will depend on the asset mix.

26. Are there certain liquidity requirements SURS would have in relation to its private credit mandate given it would be replacing a more liquid segment of credit?

- **No**

27. Where are the lines drawn within the mandate, for example, would real asset lending be part of the private credit portfolio (given it is a fixed income asset) or part of the Core Real Assets portfolio (given the underlying asset specialization)?

- **SURS currently invests in both private equity and private real estate debt. Private credit should have its own identity and strategies that appear too much like private equity or private real estate would likely not be considered. The primary focus will be income with a component of special situation type of funds.**

28. SURS reduced its Commodities allocation to 0%. Was this driven by ESG decisions or strictly investment return decisions? Would private credit related to underlying commodity-driven industries be affected by SURS decision to reduce its Commodities exposure?

- **It was an asset allocation decision. Not necessarily, depends on the strategy.**

29. The Stabilized Growth mandate is described as providing growth through strategies that are exposed to market beta, exhibiting expected returns similar to Traditional Growth but with lower volatility. Diversifying Strategies sit elsewhere. Some clients we work with include specialty finance strategies (such as insurance-linked assets, litigation finance, royalty-linked assets, etc.) in their private credit mandates given these strategies are essentially specialized, contractual, fixed income strategies. Would SURS consider these types of less-correlated strategies as part of the private credit mandate?

- **Yes.**

30. In general, is SURS constructive on including a broad universe of private credit in this mandate (i.e. spanning senior direct lending through to distressed/special situations) or is there a certain composition SURS intends to have as a structure?

- **SURS is open to discussing various strategies and why they might be a good fit.**

31. How will SURS measure the success of the firm managing this portfolio?

- **Level of service to Staff and the Board. Quality of investment recommendations. Timeliness of materials. SURS will review the consultant annually.**

32. Will there be specific geographic preferences for the private credit mandate?

- **No.**

33. Do you have any opinions on how the private credit portfolio should be allocated across strategies (direct lending, mezzanine, distressed, etc.)?
- **Please see the answers to questions #25 and #27.**
34. In how many years do you seek to achieve your target allocation of 5-7% of the total plan?
- **Please see the answer to question #1.**
35. Regarding the table following Question 1e in Appendix D, should the date in the last column be "6/30/2020"?
- **12/31/2019**
36. The Credit Fixed Income inception date is listed as 9/30/2019. What was the portfolio comprised of prior to this inception, and is this a new allocation or a reclassification?
- **The credit fixed income inception date of 9/30/2019 coincides with the reallocation of the fixed income portfolio from traditional fixed income groups (Core, Core Plus, EMD, etc.) to the functional groups (Principal Protection, Stabilized Growth, etc.). All of the managers received guideline revisions to reflect their new mandates in either Principal Protection or Stabilized Growth.**
37. Will SURS assess proposed consultant fees through the lens of net expenses after considering historical ability to achieve management and incentive fee reductions for the consultant's clients?
- **Yes, and also the absolute cost relative to peers.**
38. How will SURS assess conflicts between a consultant and the consultant offering its own fund products or structuring dedicated SMAs with only certain established fund managers?
- **SURS will carefully review the policies in place at each firm to address potential conflicts of interest, including, but not limited to, allocation of investment opportunities between clients. Firms will be expected to have in place robust policies to monitor, address, and report on potential conflicts of interest.**
39. It appeared that the Manager Diversity Program (MDP) did not have any managers within the Credit Fixed Income strategy as of June 30, 2019. Is there a targeted percentage of the private credit portfolio that SURS is pursuing toward this commitment to diversity by managers that are minority-owned businesses, female-owned businesses, and businesses owned by a person with a disability?
- **SURS would expect the private credit allocation to achieve a minimum 20% overall goal or explain why that goal is not achievable .**
40. Regarding Question 1t in Appendix D, for multi-asset mandates, how should we clarify assets as either discretionary and non-discretionary private credit assets?
- **Split them by the % of assets that you have discretion over vs. the assets the client instructs you on how to investment them.**

41. Regarding Question 1ee in Appendix D, what does the asterisk for the private credit program size in the second table relate to?

- **Typo. Doesn't reference anything.**