



STATE OF HAWAII
DEFERRED COMPENSATION PLAN
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

January 25, 2017

ADDENDUM NO. 1

**WRITTEN RESPONSES TO QUESTIONS RECEIVED ON THE
REQUEST FOR PROPOSALS FOR AN ACTIVE U.S. LARGE CAP CORE EQUITY
INVESTMENT OPTION FOR THE STATE OF
HAWAII SECTION 457 DEFERRED COMPENSATION PLAN,
RFP NO. DCP-16-2**

This is to inform you that the Board of Trustees ("Board") of the State of Hawaii's ("State") Deferred Compensation Plan ("Plan") received the following written questions pertaining to the above-referenced RFP. After careful consideration, the Board hereby responds to these questions as follows:

Q1. *"Is there a preference for separately-managed or commingled portfolio?"*

A1. **No. Please note that as stated in Section IV. C.3., General Investment Option Information, of the RFP "the Board prefers to access the lowest cost investment vehicles that could be eligible to be utilized in a daily valued defined contribution plan".**

Q2. We are requesting the following adjustments in Section VI.K., Insurance, to delete the following insurance language. *"Will we be able to proceed with these changes?"*

a. Deletion of paragraph K.1.b.1. which reads:

"The State of Hawaii Deferred Compensation Plan is added as an additional insured with respect to operations and services performed for the State of Hawaii Deferred Compensation Plan".

b. In paragraph K.3., lined deletion as noted:

"The CONTRACTOR agrees to deposit with the STATE, on or before the effective date of the Contract, certificate(s) of insurance necessary to satisfy the STATE that the provisions of the Contract have been complied with, and to keep such insurance in effect and provide the certificate(s) of insurance to the STATE during the entire term of the Contract. ~~Upon request by the STATE, the CONTRACTOR shall furnish a copy of the policy or policies.~~"

A2. **Please list this as a variance in your Proposal for the Board to review and consider it.**

- Q3. Within section III.B.3.c. (page 9) of the RFP, the minimum qualification states that “Performance The investment option shall have: Net investment return that has outperformed the median Active U.S. Large Cap Core Equity manager universe and the Standard & Poor’s 500 Stock Index over a rolling three (3) and five (5) year period”. *“What is the frequency of the rolling periods (monthly, quarterly, semi-annually)? Further, is there a threshold for persistence of returns over time i.e. average net returns are above peers and S&P 500 benchmark on a three and five year rolling basis > 50/75/100% of the rollback periods?”*
- A3. **The Board would like quarterly rolling periods. The threshold will be based on the results obtained from the peer group.**
- Q4. *“Would the State of Hawaii Deferred Compensation Plan consider a Large Cap Core Equity manager that utilizes factor-based or quantitative methods with strict risk control techniques for this mandate?”*
- A4. **Yes.**
- Q5. The offering we would propose for this search is a registered 40-Act mutual fund in which investors sign an account application rather than enter into an investment management agreement (IMA) with the manager. As the investment adviser to the fund, we act as fiduciary to the mutual fund, and are not appointed as fiduciary by individual clients investing in the fund. *“Are 40-Act mutual funds exempt from the Contract Execution (p. 34 of the RFP)?”*
- A5. **No, 40-Act mutual funds are not exempt from the requirement that a Contract be entered into with the successful Offeror. FYI, the Board enters into an “Agreement for Investment Product(s)” with every investment product provider in the Plan.**
- Q6. *“Is a sample of the contract (F. Contract Execution, p.34 of the RFP) available for review?”*
- A6. **No. Each “Agreement for Investment Product(s)” is unique, and depends upon the investment product selected.**
- Q7. Question 8 under “Information Included in Proposal” describes, “State the length of time the company has been investing tax-exempt assets for retirement plans (e.g., section 457 deferred compensation plans, 401(k) plans, pension plans, etc.). Generally, assets held in retirement plans are tax-deferred and not tax-exempt. *“Can you help us understand exactly what type of assets you are referring to in this question?”*
- A7. **The Board is looking for the amount of experience a provider has in investing assets for tax-exempt institutional investors. Please highlight your experience with section 457 plans, if any.**
- Q8. *“Will you accept electronic documents rather than printed documents? If you are accepting only printed documents, how many copies of the response will you need?”*
- A8. **Please refer to paragraph B.9. of Section VII., Proposal Submission Instructions and Requirements, of the RFP which prescribes the document submittal requirements.**
- Q9. *“Does this item below mean that to be an eligible RFP candidate a manager must currently manage assets for three DC plans? What if a manager will be managing assets for one DC plan*

at the time of RFP submission? ”:

“List three (3) section 457 deferred compensation plans the company provides investment services to with at least 1,000 participants, and the name, title, and telephone number of the persons whom the STATE may contact for reference purposes.”

A9. No. Please submit all of your references from section 457 deferred compensation plan clients with at least 1,000 participants.

Q10. *“Under “strategy” there is no requirement for length of track record managing large cap core strategy, but does this item below mean to be eligible for consideration a manager must have a 5+year track record? What if a manager will cross a 5 year track record shortly after submission? ”:*

“Net investment return that has outperformed the median Active U.S. Large Cap Core Equity manager universe and the Standard & Poor’s 500 Stock Index over a rolling three (3) and five (5) year period.”

A10. No. Please provide your product’s historical annual returns as of December 31, 2016.

Q11. *“Per below, will there be daily flows? Does each manager have to manage the trading of new flows each day? Will the manager be required to have an audited daily NAV? ”:*

“Offer an investment vehicle for the proposed strategy that can be utilized in a daily valued defined contribution plan (i.e., accept daily cash flows.)”

A11. Liquidity must be available daily. For segregated accounts, the Plan’s TPA will work with the custodial bank to provide a daily NAV.

Q12. *“In the Scope of Work, one of the minimum requirements is that the firm shall have a well-diversified investment strategy. What is your definition of well diversified? We have a large cap concentrated strategy that typically holds 15-35 companies that has outperformed the S&P 500 over a rolling 3 and 5 year period. Would you consider this strategy for this RFP? ”*

A12. There is no general definition of “well diversified”. The Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.

Q13. Regarding the minimum capabilities outlined on page 9 of the RFP, section B.III. Performance. “c.Net investment return that has outperformed the median Active U.S. Large Cap Core Equity manager universe and the Standard & Poor’s 500 Stock Index over a rolling three (3) and five (5) year period.”

“Our Firm underperforms the Standard & Poor’s 500 Stock Index over the three and five year time period. We also underperform the median Active U.S. Large Cap Core Equity manager universe for the five year period, but not the three year period. Is the qualification of meeting this performance a requirement to be considered as a manager for this search? ”

A13. The Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.

Q14. *“Can the State of Hawaii provide further details on how you anticipate the payment arrangement*

to work for the Plan's TPA fees? Will the State of Hawaii be sending us or the custodian with direction to liquidate an amount for payment of the fees, or will the payment instruction be coming from the Plan's TPA?"

A14. The Plan's TPA will coordinate and collect the payment of TPA fees directly from Plan participants' accounts.

Q15. *Section III. Scope of Work, B.2 – Investment Strategy. "Our Opportunistic Equity strategy, drawing from a broad equity universe, seeks to identify attractively valued companies of any style, sector, or capitalization with growth potential not fully recognized by the market. As of September 30, 2016, the weighted average market cap of the Representative Portfolio was \$80 billion and the median market cap was \$15 billion. Individual portfolios may be benchmarked against the S&P 500 or Russell 3000. Within the context of this search, would you consider our Opportunistic Equity strategy?"*

A15. The Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.

Q16. *"In regards to questions C13-24, we would be proposing investment via a separate account. The questions mention a trading agreement with Prudential; would this be a directed brokerage agreement or is it simply a custodial agreement to hold assets on the Prudential platform? If the account is a separate account and not a mutual fund or commingled vehicle, will the account be subject to daily flows?"*

A16. The trading agreement with Prudential is an agreement to hold assets on Prudential's administrative platform. With respect to your question regarding "daily flows", please refer to A# 11.

Q17. *"Regarding question IV.C.22, can you please clarify what it means for the company to guarantee that funds/investments shall never be diverted by virtue of bonds furnished the State, escrow arrangements and securities pledged with the State? If the company were to choose one of these methods to guarantee, how would this work in practice?"*

A17. The Board wants to be sure that Plan assets are protected and can be segregated from provider and other client assets.

Q18. *"Regarding question VI.J.1.a., it says "Prior to award, the Contractor shall comply with all State laws, rules, and regulations related to tax clearances, and labor and business registration requirements." Can you please clarify what is meant by "prior to award"? Where would this fall under the timeline in the Calendar of Events in Section I of the RFP?"*

A18. An Offeror must be licensed to do business in the State of Hawaii by the time the Board sends a written notice of award to the selected Contractor.

Q19. *"The Standard Proposal Letter asks the Offeror to confirm that it is authorized to transact business in the State of Hawaii. Question IV.A.18 states that if the Offeror is not currently licensed, it must do so prior to transacting business in the State and to state how long it will take to become licensed. If the Offeror responds "NO" to the question in the Standard Proposal Letter because it is not licensed at the time of submission of the Standard Proposal Letter, would the Offeror's response be deemed 'unacceptable'?"*

A19. **No. See also, A# 18.**

Q20. *“Will the State be providing a template Contract to the selected Offeror?”*

A20. **Yes. The Board will send the successful Offeror a draft Contract to review.**

Q21. *“We can offer a strategy that has a 3-year performance track record as of 9/30/2016. Is a 5-year performance track record a preferred or a mandatory requirement?”*

A21. **It is preferable to have at least 5 years of experience; however, the Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.**

Q22. *“We can offer a strategy that outperforms the US Large Cap Core Equity manager universe median but underperforms the S&P 500 Stock Index for the 3-year period as of 9/30/2016. Does this satisfy the RFP requirement?”*

A22. **The Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.**

Q23. We are seeking clarification on the investment product requirements. The request states the following minimum performance requirement but does not specify a timeframe for the comparison. *The investment option shall have net investment return that has outperformed the median Active U.S. Large Cap Core Equity manager universe and the Standard & Poor's 500 Stock Index over a rolling three (3) and five (5) year period.* Our investment strategy has exhibited the following batting averages since inception for the requirement comparisons.

<u>Outperformed</u>	<u>Rolling 3-Year</u>	<u>Rolling 5-Year</u>
S&P 500	75.21%	73.39%
Median Large Cap Core Manager*	79.49%	79.82%

*eVestment U.S. Large Cap Core Equity

“We would like clarification if the aforementioned statistics meet the necessary requirements.”

A23. **The Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.**

BRIAN T. MOTO
Chairperson
Board of Trustees
State of Hawaii
Deferred Compensation Plan