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DATE: July 27, 2021

TO: All Recipients of the Notice of Search for Developed Markets ex-USA Active Equity
Investment Managers Services for the New York City Retirement Systems
PIN: 015-218-269-00-IQ

FROM: Fannie Moy
Sr. Contract Analyst

SUBJECT: Addendum #1: Questions and Answers about the Search

This Addendum #1 answers questions received from prospective candidates. As a reminder, information must be submitted to consultant databases by **August 19, 2021 by 11:59 PM EST.**

Question 1: We are considering submitting for the developed markets ex-USA Search but we only offer that type of strategy in an open-end mutual fund. Would you consider that type of fund of your Search?

Answer 1: The five investment consultants may consider the product if it meets the Minimum Requirements. The NYCERS only invest via separately managed accounts with securities held at the City's custodian bank.

Question 2: Is this Search covering a new or expanded portfolio, or are managers being replaced/re-contracted as they reach the end of their preexisting contracts? Is the system's overall allocation to international equities changing at all?

Answer 2: We have issued the Search to refresh the pool of managers because the current pool is set to expire. There are no changes to the systems' international allocations.

Question 3: Can you give us some more detail on how many managers will likely be selected, in addition to their mandate sizes? For instance, as of March 31, 2021, the pension held \$22.6 billion in active developed markets ex-US equity portfolios. However, I can't imagine you'll be re-committing all of that to new managers?

Answer 3: We are conducting the Search due to contract expirations with the incumbent managers. Provided that the stated minimum criteria are met, each incumbent is welcome to participate in this Search. As such, it is possible that all, some, or none of the incumbent managers will be re-committed.

At this stage of the process, we do not have a pre-determined number of managers we intend to select or a determination of each mandate's size. As stated in Section III.A., as of March 31, 2021, the Systems had approximately \$22.6 billion invested in Developed Markets ex-USA Equity Active portfolios. Current manager allocations ranged from \$275 million to over \$6 billion. The total dollar amount to be allocated to managers selected through this Search has not been determined but is expected to be a similar amount.

Question 4: I came across your Notice of Investment Manager Search for Developed Markets ex-USA Active Equity Investment Management Services and noticed that managers are expected to manage their portfolios as separate accounts. Would mutual funds be considered as well?

Answer 4: As stated in Section III.A. of the Notice of Search, managers are expected to manage portfolios as separate accounts. While we would consider mutual fund returns streams in evaluating manager performance, we will not allocate assets to mutual fund accounts.

Question 5: We received notification on your upcoming developed markets equity Search and look forward to participating. We have a few strategies that may align and would like to get some additional clarity on the stated mandate prior to beginning the submission process. Can you please confirm whether emerging markets exposure is permitted within the international portfolio?

Answer 5: As stated in Section III.A., this Search is for active equity managers and their products covering long-only Developed ex-USA Market equity products that can be benchmarked to developed market indexes. The overall portfolio benchmark is the MSCI World ex-USA IMI, a developed markets benchmark. Some limited emerging markets exposure would be acceptable as out of benchmark active bets. [See below]

Question 6: We are interested in participating in the Developed Markets ex-USA Active Equity Investment Manager Search. Our firm's International Equity strategy has a maximum allocation to Emerging Markets of 20%. Would you consider a product with this allocation?

Answer 6: No, 20% would be too high. We may go as high as 15%.

Question 7: Our firm hoped to confirm New York City Retirement Systems' preferences with respect to the following two questions:

- (1) Would the New York City Retirement Systems consider strategies benchmarked against the MSCI ACWI ex-USA Index?
- (2) For its Developed Markets ex-USA mandates, does the New York City Retirement Systems permit its investment managers to maintain exposure to emerging markets? If so, what is the maximum permissible emerging markets?

Answer 7: As per the Notice of Search, we will not consider the ACWI ex-USA index as a benchmark. We do recognize that some ACWI ex-USA products can be benchmarked to the World ex-USA index. Maximum out of benchmark exposure to emerging markets may go as high as 15%.

Question 8: I am the relationship manager. Our firm is a \$17 billion investment manager out of Boston, MA, and we are 100% employee owned and diverse manager (Certified Women's Business Enterprise). We are very interested in being considered for this opportunity for our international Equity Income strategy, but unfortunately we miss the AUM product minimum of \$250 million. We currently have \$105 million in that strategy but previously have managed over \$250 million and the team together manages roughly \$650 million. All other minimum requirements are met. I wanted to see if we could be considered and should/can submit our strategy.

Answer 8: The Minimum Requirements listed in the Notice of Search apply to all managers.

Question 9: Please consider the below two questions:

- (1) Will the MSCI ACWI ex-USA benchmark also be considered?

- (2) What is the maximum allowable exposure to emerging markets equities, both relative and absolute? (If the MSCI ACWI ex-USA benchmark will not be considered?)

Answer 9: The MSCI ACWI ex-USA Index will not be considered as a benchmark for this Search. Products listed in the databases as benchmarked to the ACWI ex-USA index may be considered provided that the consultants believe an MSCI World ex-USA benchmark is also an appropriate benchmark and the manager is willing to benchmark its account to an MSCI World ex-US Index. Maximum out of benchmark exposure to emerging markets may go as high as 15% absolute.

Question 10: We're in the process of reviewing the Developed Markets ex-USA Active Equity RFP and had a few questions regarding the benchmark and non-developed markets exposure. We've laid out our questions below.

- (1) Would strategies benchmarked to the MSCI All Country World ex-USA Index be considered?
- (2) Are there any limits for non-developed markets exposure for this Search?

Answer 10: Please see our response to question #9 above.

Question 11: Minimum requirements state the product must be able to be benchmarked against a developed markets Ex-USA index. Can the proposed strategy itself include limited Emerging Markets exposure up a specified amount (i.e., 5/10%), provided it is benchmarked to the MSCI EAFE Index?

Answer 11: Please see our response to question #9 above.

Question 12: We would like to submit a response to your international Developed Markets ex US Active Equity Search for the NY City Retirement Systems with our International Equity capability, and we noticed that BAM and the Systems' Investment Consultants would be using industry databases (Callan, Wilshire, and eVestment) to identify the universe of Developed ex-US equity capabilities using developed only benchmarks. Each database has information on our international Equity capability, however our internal benchmark as well as the benchmark listed in the referenced databases is the MSCI ACWI ex-US IMI and we wanted to confirm that we would not be screened out of your database screening because of this? For additional context, we currently have a number of International Equity clients that benchmark to a developed only benchmark and we would be willing to do so for the NY City Retirement Systems through a separate account relationship.

Answer 12: Consultants may consider such products if they believe they are appropriate for the mandate.

Question 13: We would like to submit the following questions with regards to this Search:

- (3) Does any of the NYC retirements plans have country restrictions, or other specific guideline restrictions?
- (4) What are the parameters around the initial database screening, other than the "minimum requirements" (i.e., specific universe, characteristics, etc.)?

Answer 13: There are no country restrictions, but there are restrictions against certain securities within some of the Systems' plans.

With regards to the second question, this Search is a consultant-driven Search. The initial screening is based on the Minimum Requirements. Managers will then be evaluated by the consultants. At that point, managers may be excluded based on each consultant's manager evaluation.

Question 14: After reviewing the Comptroller's Notice of Search for Developed Markets ex-USA Equity Investment Managers, we had the following questions:

- (1) Given the wide range of benchmarks provided in Section III.A of the Notice of Search, is there a preference the Comptroller has for either an ACWI ex US or EAFE strategy?
- (2) Should firms that manage both ACWI ex US and EAFE products submit both for consideration?

Answer 14: Note that ACWI ex-US **was not** listed in the Scope of the Notice of Search. The preferred benchmark is MSCI World ex-USA. It is suggested that firms populate the databases with information for all of their products.

Question 15: With regards to the Search for Developed Markets ex-USA Active Equity Investment Management Services, can you please clarify whether directed brokerage is a requirement?

Answer 15: We do not direct brokerage. We do encourage and monitor the use of M/WBE brokers. As stated in Section III.A.: *"Investment managers are also advised that the Comptroller's Office, on behalf of the Systems, has implemented a minority- and women-owned brokerage initiative. As part of this initiative, the Comptroller's Office maintains a list of qualified brokerage firms. Subject to the investment manager's obligations to obtain best execution, the System's investment managers are expected to use firms on this list to execute trades for the Systems' portfolios. The Comptroller's Office also requires regular written reporting from Managers on their progress in achieving this goal."*

Question 16: We would like to submit the following questions regarding the Investment Manager Search for Developed Markets ex-USA Active Equity Request for Proposal:

- (1) Can you please provide a copy of the Investment Guidelines?
- (2) Will a strategy that has Emerging Markets exposure be considered under the scope of this mandate?
- (3) Will an International SMID Strategy be considered under the scope of this mandate? Yes, we are open to strategies benchmarked against MSCI World ex-USA Small Cap indices as stated in Section III.A.

Answer 16: Investment guidelines will be provided to managers later in the process.

Question 17: We seek your clarification regarding the following:

- (1) In addition to managing an EAFE Equity strategy, we also manage an international Equity strategy, which has some emerging markets exposure. Would this strategy also be considered for a separate mandate?
- (2) Will there be flexibility given to the minimum AUM criteria for an EAFE Small Cap Equity strategy for a minority-owned firm?
- (3) Please confirm that Due Diligence Questionnaires will not be required until managers are selected on the Shortlist.

Answer 17: The Minimum Requirements for AUM stated in the Notice of Search apply to all firms. Due Diligence Questionnaires are typically sent out later in the process to managers recommended by two or more consultants.

Question 18: Are you willing to consider a strategy benchmarked to the MSCI ACWI? We would be happy to carve out the EME allocation in a separately managed account.

Answer 18: Please see the response to question #9 above.