**Request for Qualified Suppliers (“RFQ-S”)**

**Title: General Investment Consulting Services**

**Solicitation #: 2018-04-04-170145035**

**Issue date: April 4, 2018**

**Due date: May 9, 2018 at 5 PM Eastern Time**

**Section A: Introduction and Basic Information**

1. **Purpose and Scope**:

The University of Tennessee is soliciting proposals from qualified firms to provide general investment consulting services for the University’s roughly $1B endowment fund. Non-discretionary, general consulting services are the core focus of this Request and will include but not be limited to the following:

* Advise on asset allocation and other long-term investment policies on an ongoing basis
* Develop and periodically review the University’s investment policy statement
* Provide in-depth analysis on key sources of risk for use in asset allocation and portfolio structuring decisions
* Provide ongoing economic and financial market research and updates, and input on rebalancing decisions
* Provide detailed monthly and quarterly reporting the include manager, composite, and portfolio-level information
* Serve as the primary resource on the University’s investment managers, including original sourcing, full operational and fundamental due diligence, ongoing monitoring and research, and recommendations pre and post-investment
* Provide robust benchmarking at the manager, composite, and portfolio level, as well as regular attribution analysis
* Create and maintain a complete private capital implementation plan covering all the market segments in which the University invests
* Provide back-office support, commonly termed “Implemented Consulting”
* Advise on institutional policy and practices related to the University’s endowment

The consultant selected for this assignment will provide general consulting services on a retainer basis covering all investment-related needs of the endowment. The University reserves the right to retain its current consultant, and to hire other consultants as needed, solely at the University’s discretion.

Additional Information

The University’s most recent asset allocation, policy benchmark, and target asset allocation are provided on the next page for reference. As of the date of this RFQ-S, total assets in the endowment were $961 million. The University utilizes the Bank of New York Mellon for custody and asset servicing. In addition, it plans to review a cash securitization/overlay program in the next twelve months.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2/28/2018** | **Target** | **Policy Benchmark** |
| **Public Equity:** |  |  | 60.0% |
| Global All Cap | 22.3% | 25.0% |  |
| US Small Cap | 3.7% |  |  |
| Int'l Dev. Small Cap | 2.3% |  |  |
| Emerging Mkts | 2.6% |  |  |
| Frontier Mkts | 1.8% |  |  |
|  |  |  |  |
| **Private Equity:** | 8.1% | 15.0% |  |
|  |  |  |  |
| **Long/short Equity:** | 5.4% | 5.0% |  |
|  |  |  |  |
| **Fixed Income:** |  |  | 39.0% |
| **Investment grade** | 3.3% | 4.0% |  |
| **Credit** |  | 15.0% |  |
| Hedge Fund | 5.1% |  |  |
| Private | 6.7% |  |  |
| CMBS | 1.7% |  |  |
| EM Debt | 1.7% |  |  |
|  |  |  |  |
| **Real Assets:** |  |  |  |
| **Real Estate** |  | 6.0% |  |
| REITs | 5.5% |  |  |
| Private Real Est. | 0.1% |  |  |
| **Natural Resources** |  | 14.0% |  |
| Agric./Land Use | 2.4% |  |  |
| Private Infrastr. | 1.2% |  |  |
| Private Energy | 8.2% |  |  |
| MLPs | 2.8% |  |  |
|  |  |  |  |
| **Diversifying Strategies** |  | 15.0% |  |
| Event Driven | 3.6% |  |  |
| Relative Value | 4.0% |  |  |
| Multi-strat | 3.2% |  |  |
| Global Macro | 2.8% |  |  |
| Other | 0.3% |  |  |
|  |  |  |  |
| **Cash:** | 1.1% | 1.0% | 1.0% |

1. **Communications**:

The following University office is managing this solicitation:

The University of Tennessee

Office of Procurement Services

5723 Middlebrook Pike

Knoxville, TN 37921

The University has engaged Alpha Capital Management (Alpha), a specialized advisory firm, to assist in this procurement process. Alpha may participate in the collection of data, reference calls, quantitative and qualitative analysis, and/or finalist interviews. The University will retain control and oversight of this RFQ-S.

Regarding the subject matter of this solicitation, respondents may only communicate with staff members of the University’s Office of Procurement Services. The primary contact person for this solicitation is listed below:

Name: Mr. Blake Reagan, J.D.

Title: Director, Procurement Services

Email: [breagan@utk.edu](mailto:breagan@utk.edu)

If a respondent contacts anyone except the University’s staff members listed above, the University may disqualify the respondent. After the response deadline, the University will allow respondents to communicate with Alpha.

1. **Term**:
   1. The initial term of contracts resulting from this solicitation will be from September 1, 2018 to August 31, 2024. The University and winning respondents may renew in one-year increments for up to four years additional year(s), upon mutual agreement.
2. **Number of Awards**: The University intends to award this solicitation to 1 respondent, unless the University deems it to be in its best interest to award to fewer, or more, respondents. The University retains sole discretion over this decision.
3. **Non-Exclusive**: The resulting agreement will be non-exclusive.
4. **Schedule**: Note the University reserves the right to change these dates.

|  |  |
| --- | --- |
| Publication Date | April 6, 2018 |
| Deadline for Questions | May 1, 2018 at 5:00 PM ET |
| Bidder Submission Due Date | May 11, 2018 at 5:00 PM ET |
| Site visits | TBD |

**Section B: Instructions and Evaluation Criteria**

1. **Assistance to Respondents with a Disability**: In the event that a respondent has a disability, the University will make reasonable accommodation to allow them to participate, provided that the individual requesting assistance contacts the Solicitation Coordinator no later than 10 days before the response deadline.
2. **Proposal Submission**: Respondents must submit their proposals via email to [the](mailto:cspitzer@utk.edu) solicitation coordinated listed above. Respondents must enter their responses in this Word document.
3. **Confidential Information**: Any proprietary or confidential materials contained in the proposal will be subject to the Tennessee Public Records Act, TCA 10-7-503. All responses, inquiries, or correspondence relating to or in reference to this solicitation, and all other documentation submitted by the respondents will become the property of the University when received. All proposal material submitted and evaluation documents will remain confidential, as provided by law, until after the University announces the notice of intent to award to the successful respondent. The University will not agree to provide advance notice of disclosure. Further, note that the University hereby notifies all bidders that any bidder’s confidentiality assertions regarding bid documents are ineffective. After the notice to award, all materials submitted are open for inspection.
4. **Proposal Preparation Costs**: The University will not pay any costs in the preparation or submission of a proposal. Respondent is responsible for its preparation costs.
5. **Withdrawal of Proposals**: A submitted proposal may be withdrawn by sending a written request to the Solicitation Coordinator before the solicitation due date. Proposals may be withdrawn and resubmitted in the same manner, if done prior to the submission deadline. Withdrawals or modifications offered in any other manner will not be considered.
6. **Acceptance and Rejection of Proposals**: The University may accept or reject any proposal that, in its opinion, is in the best interests of the University. The University may re-solicit proposals, or to continue with the current supplier for these services. The University may also waive minor variances or immaterial defects in a response. The University may also accept any item in the bid, unless otherwise specified by the Respondent.
7. **Questions**: Up to the deadline for questions, respondents may ask the Office of Procurement Services questions in writing via email to the email address listed above in the “Communications” subsection. In the event that a respondent communicates with the Office of Procurement Services verbally, the respondent understands that verbal communication is non-binding, and respondent further acknowledges the only official communication about this solicitation is written communication. Respondent understands that it must not rely on verbal communications with the University, or with Alpha.
8. **Addenda**: The University will make reasonable efforts to ensure that all respondents have the same material information. Accordingly, if a respondent asks a question that the University considers, in its sole discretion, to be material, the University will issue an addendum to this solicitation. The University will communicate all addenda to all respondents.
9. **Evaluation of Technical Responses**:

The University will use the following scoring criteria:

|  |  |
| --- | --- |
| **Evaluation Criteria** | **Maximum Points Possible** |
| Mandatory requirements | Pass/Fail |
| General and Technical qualifications, including on-site visit. | 1,000 |

1. **Cost Proposal**: The Office of Procurement Services will evaluate the respondents’ respective cost proposals, and may negotiate with one or multiple respondents to ensure a both-win deal for the University and respondent.
2. **Award**: This solicitation does not commit the university to make an award or to procure or contract for the articles of goods or services described in this solicitation. The University will make an award that the University determines to be in its best interest; this might result in a situation where the University does not award to the respondent offering the lowest cost, or to a respondent other than the highest-scoring respondent. The University reserves the right to negotiate terms and alter the specifications with the with the highest scoring respondent, however, if they are unable to reach mutually agreeable terms and conditions, the University reserves the right to reject the proposal and negotiate terms of an agreement with the next highest scoring respondent. If the agreement with the successful respondent is terminated for any reason prior to the agreement termination date, the university may elect to substitute the next highest scoring respondent, if they are willing to honor the prices in their initial proposal. A Purchasing Department of the University of Tennessee is the only office authorized to award a purchase order for the required services.
3. **Notice of Intent to Award**: After the evaluation process is completed, the University will issue a formal notice of intent to award notifying all respondents of the identity of the winning respondents.

**Section C: Technical Response**

**Instructions**: Respondents must write and organize their responses in the same order as listed below. The University may deem a response non-responsive if the respondent does not comply.

Once all submissions have been received, the University will review all viable candidates and select up to eight that it believes are best qualified to meet the University’s requirements. At that stage of the process, the University and Alpha Capital conduct a full due diligence review of those eight firms, including reference checks. Only after completing that review, will up to four finalists be selected for on-site presentations and interviews. The University anticipates making an award to one firm only.

Because the University will only issue one questionnaire for the entire RFQ-S, it contains a large number of questions covering a wide range of subjects. Please be as concise and direct as possible in your answers. Please respond by entering your answers in this Word document. Please use either tracked changes, or red-text font, to indicate your responses. Do not alter any of the terms and conditions of this document.

**Section C - Part 1: Mandatory Requirements**

**The University will assess each criteria below on a pass/fail basis:** **respondents must pass each criteria to qualify.**

1. The consulting firm must have experience with and the capability to perform asset allocation studies and advise on investment policy development, to perform manager searches and evaluation across the range of asset classes, to monitor performance, and to perform research on capital markets and managers.

Yes\_\_\_\_\_ or No\_\_\_\_\_

2. The consulting firm must agree in writing to serve as a fiduciary to the University of Tennessee.

Yes\_\_\_\_\_ or No\_\_\_\_\_

3. The investment consulting firm must agree that it will not delegate its fiduciary responsibilities assumed under the contract.

Yes\_\_\_\_\_ or No\_\_\_\_\_

4. Any potential conflicts of interest must be disclosed in all cases.

Yes\_\_\_\_\_ or No\_\_\_\_

5. The consulting firm must have an aggregate of at least $35 billion under advisement.

Yes\_\_\_\_\_ or No\_\_\_\_\_

6. The consulting firm must have an aggregate of at least $20 billion in nonprofit assets under advisement.

Yes\_\_\_\_\_ or No\_\_\_\_\_

7. The consulting firm must have an aggregate of at least $12 billion in endowment and foundation assets under advisement.

Yes\_\_\_\_\_ or No\_\_\_\_\_

**Section C - Part 2: General Qualifications**

# Questions

## General Information for RFQ-S

### Firm name

### RFQ-S contact name, phone number, and email address

### Names and titles of the proposed consulting team

### Provide the office address, telephone number, and general email address for the office that would service this relationship.

## Quantitative Information

|  |  |
| --- | --- |
| Year Founded |  |
| Headquarters |  |
| Satellite Offices |  |
| Asset under Advisement ($billions) |  |
| Legal Structure (LLC, Partnership, Corp. etc.) |  |
| Owners of the firm (#) |  |
| Largest Owner (%) |  |
|  |  |
| **Employee Composition** |  |
| Number of Employees (FTE) |  |
| Total Consultants (#) |  |
| Senior Consultants (#) |  |
| Junior Consultants (#) |  |
| Investment Professionals (#) |  |
| Research Department (#) |  |
| Other (explain, #) |  |
| Client to Consultant Ratio |  |
| Average Consultant Years’ Experience (#) |  |
| Employee Turnover (% Last 3 years) |  |
| Employees w/ CFA (# Firm Total) |  |
| Employees w/ CAIA (# Firm Total) |  |
|  |  |
| **Revenue** |  |
| Revenue from Investment Consulting (incl. OCIO) (%) |  |
| Other Sources of Revenue (List) |  |
| OCIO Revenue (%) |  |
| OCIO Revenue (% Projected in 5 Years) |  |
| Proprietary Funds/Products for Clients (Yes/No) |  |
| Own a Broker/Dealer (Yes/No) |  |
|  |  |
| **Clients** |  |
| Total Clients |  |
| Client size (Mean & Median $millions) |  |
| Stability of Client Base (# gained / # lost 2014-2016) |  |
| Stability of Client Base (% retained last 3 years) |  |
| All Non-Profit Clients (#) |  |
| All Non-Profit Client Assets ($) |  |
| All Non-Profits (Percent of Assets) |  |
| Endowment & Foundation Clients Only (#) |  |
| Endowment & Foundation Client Assets Only ($) |  |
| Endowment & Foundation Only (Percent of Assets) |  |
| # of Higher-education Endowment Clients advised |  |
| # of Higher-ed. Endowments advised with assets < $250 million |  |
| # of Higher-ed. Endowments advised with assets $250 to $750 million |  |
| # of Higher-ed. Endowments advised with assets > $750 million |  |
|  |  |
| **Investment Research** |  |
| Dedicated Research Department (Yes/No) |  |
| Total Employees in Manager Research (#) |  |
| Total Full Time (FT) (#) |  |
| Total Part Time (#) |  |
| Senior Researchers (#) |  |
| Senior Researchers Avg Yrs Experience |  |
| Junior Researchers (#) |  |
| Junior Researchers Avg Yrs Experience |  |
| Alternatives Research Only (#) |  |
| Are Researchers Specialists or Generalists? |  |
| FT Research Employees w/ CFA (#) |  |
| FT Research Employees w/ CAIA (#) |  |
|  |  |
| **Capital Markets** |  |
| Total Employees in Capital Markets (#) |  |
| Asset Allocation Software Used (Name) |  |
|  |  |
| **Manager Database** |  |
| Total Managers Tracked |  |
| Total Managers Tracked, excluding 1940 Act funds |  |
| Manager Rating System (Yes/No) |  |
| Managers Rated (Traditional) |  |
| Managers Rated (Alternative) |  |
| Traditional Managers Actively Covered (# by major asset class) |  |
| Alternative Managers Actively Covered (# by major asset class) |  |
| # Hedge Funds |  |
| # Draw-down LPs (e.g. private equity, venture cap, debt, etc.) |  |
| Manager Meetings per Year (#) |  |
|  |  |
| **Reporting** |  |
| Secure Online Access (Y/N) |  |
| Performance Reporting Software |  |
| Days from Quarter-End to Receive Performance Reports |  |
|  |  |
| **Insurance** |  |
| Errors & Omissions (Amount) |  |
| Fiduciary Liability (Amount) |  |
| Cybersecurity (Amount) |  |

## Firm Background, Staffing, and Clients

### What % of your revenue do you anticipate discretionary consulting services to comprise in 5 years? Is this a growth area for your firm?

### Please provide a brief overview of your organization and its history (no more than 2 paragraphs).

### Detail your firm’s ownership structure and succession plan along with the percentage ownership of the largest owner. Include a brief description of any affiliated companies, strategic partnerships, or joint ventures.

### Within the past five years, have there been any significant developments in your organization (changes in ownership, personnel reorganization, mergers, acquisitions, etc.)?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Describe in detail: |

### List any turnover of senior professionals, including consultants, over the past three years. Add additional rows as needed.

|  |  |  |
| --- | --- | --- |
| **Title** | **Date (Approximate)** | **Reason for Leaving, if applicable** |
|  |  |  |
|  |  |  |

### What is your firm’s target market in terms of client portfolio size and type?

### What is the firm’s average client to consultant ratio? Be sure to specify how the ratio is calculated.

### What is considered a full client load for a consultant at the firm, and are there any firm limits? What factors are considered in determining this load?

### What, in your opinion, are the key skills an investment consultant must possess?

### Briefly describe your firm’s compensation system for principal staff, and indicate what specific incentives are utilized to retain key professionals.

### Do your firm’s marketing personnel receive a portion of the fees paid by clients they recruit?

## Legal and Compliance

### Is your firm, its parent or affiliate a Registered Investment Advisor (RIA) with the SEC under the Investment Advisors Act of 1940?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Date firm registered with SEC: \_\_\_\_\_\_\_\_\_\_\_ |

### When was that last time your firm was audited by the SEC or another regulatory entity? What were the findings?

### Over the last five years has the firm, proposed consultant(s), or any other principal or officer of the firm been involved in any business litigation, regulatory, or other legal proceedings or government investigation?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Describe in detail, including relevant dates, involved parties, and outcomes. |

### Does your firm have a written Conflict of Interest and/or Code of Ethics policy?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes (answer the following questions): |
|  | How is employee compliance with the policy/policies monitored? |
|  | Summarize the policy regarding: preventing payments or relationships from being considered when you provide advice to clients. |
|  | Summarize the policy regarding: personal gifts, meals, entertainment, or other such arrangements. |
|  | Summarize the policy regarding the creation and marketing of any branded fund of funds or other proprietary vehicles, including how alignment between the client and firm is ensured. |
|  | Do you give gifts or make donations to your clients? What policies and limits are in place to regulate this activity? |
|  | If you offer both discretionary and non-discretionary relationships, please summarize any policy of limiting conflicts of interest between servicing discretionary vs. non-discretionary clients. |

### Have there been any material breaches of your code of ethics, conflict of interest policy, or compliance in the past five years?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Explain in detail. |

### Who is your designated Chief Compliance Officer, and how long have they served in this capacity? Please describe any changes in the last five years.

### How many employees are in the compliance function?

### Do you have a formal disaster, business continuity, and data recovery plan in place?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Briefly describe (limit response to 2 paragraphs) and include the name of any third-party providers that assist in the plan. |

### Provide your data security profile, including how your firm secures the confidential information of your clients and defends against cyberattacks. Limit responses to 2 paragraphs.

### Does your firm manage any fund-of-funds or investment products? Please include any feeder vehicles where your firm has discretion over manager selection and offers them to clients, whether there is an associated fee collected by your firm.

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Please answer the following questions: |
|  | Under what names are these vehicles referred to in the Form ADV? |
|  | Under what circumstances are these funds/vehicles offered to clients? Are they limited only to discretionary (OCIO) clients? |
|  | What is the fee schedule? |
|  | Are there any fee breaks associated for clients of the firm (include discretionary and non-discretionary clients in your answer, if applicable)? |

### Do you engage in any of the following activities?

|  |  |  |
| --- | --- | --- |
|  | No | Yes (describe in detail) |
| Sell manager research to third parties? |  |  |
| Run model portfolios for third parties? |  |  |
| Pay referral fees or finder’s fees to any third parties? |  |  |
| Have any investment managers, including ETF and mutual fund providers, as clients? |  |  |
| Charge investment managers any direct or indirect fees to be included in your firm’s database? |  |  |

### Do you, the firm, its employees and/or any of its affiliates or related entities own any interest in or are a part of a broker/dealer, money management firm, third party administrator, insurance company or other organization that sells investments, administration, auditing, legal or related services?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. If you are involved in other businesses that raise the potential for a conflict of interest, explain how such conflict is avoided. |

### Do you, the firm, its employees and/or any of its affiliates or related entities receive any remuneration or other economic benefit from any broker/dealer, money management firm, third party administrator, insurance company or other organization that sells investments, administration, and auditing, legal or related services?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Describe in detail. |

### Has your firm, any affiliate, or any staff member either directly or indirectly received any compensation, services, or privileges from any service provider or manager?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Provide a detailed explanation and describe the arrangement. Please include the rationale for the arrangement, the type/nature of the third-party and whether your firm believed it to be a potential conflict of interest. |

## Questions Specific to the Client Relationship

### Provide the names, titles, home office locations, and biographies of key individuals who would be directly responsible for providing consulting services to the University.

### For each individual, please fill out the following table:

|  |  |
| --- | --- |
| Years with the firm |  |
| Years in current role at firm |  |
| Years with other investment advisory/consulting firms |  |
| Other related experience |  |
| Firm ownership amount |  |
| Types of clients serviced |  |
| Approximate range of client sizes served |  |
| Current client load as lead consultant |  |
| Current client load as secondary consultant |  |
| Advanced degrees and certifications, including CFA and CAIA |  |

### Explain how the assigned consultant(s) would function, including the lead person, back-up, and support services, and explain how any staff turnover on this account would be handled by the firm.

### Disclose any potential conflicts of interest, or appearance of conflict, which may arise if your firm is selected for this particular relationship.

### Will our organization have direct access to research professionals as well as the consultants assigned to the relationship?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. What is a reasonable expectation for the level of access our organization would have to research professionals? Under what circumstances are clients like us most likely to utilize this access? |

### Will our organization’s internal investment team have direct access to your firm’s research database or other internal tools?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Answer the following questions. |
|  | Is there an additional charge to have direct access to the research database? |
|  | Other than the research database, what other internal investment or asset allocation tools do you have available for clients to utilize? Provide a brief description and any additional costs for these tools. |

### If hired, will your firm receive any other form of compensation from working with this account, outside of the contractually agreed upon consulting fees?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes. Identify the form(s) of compensation: |

### The Investment Advisory Committee Charter is provided as an appendix. Please provide comments as well as any alternative approaches/options.

### The endowment’s current asset allocation, target allocation, and policy benchmark are included in Section A-1. Please comment on the portfolio’s current asset allocation and policy targets.

### How much latitude is a consultant given in making recommendations to a client?

### Are consultants allowed to recommend ideas at the manager or asset class level that are not in line with the firm’s stated position?

### Are any methods, procedures, and/or compliance protocol in place to prevent “unintended bets” and/or portfolio drift from occurring? If so, please describe.

### Are client portfolios periodically reviewed by firm personnel apart from the client-facing consultant/team? If so, please elaborate and state whether this is firm or consultant choice/policy.

### Would your firm ever require an advisory client to memorialize its investment decision(s) in writing if it/they ran counter to what your firm deemed prudent or the client’s stated objectives? (For example, a client desires to take a large position in a highly leveraged/volatile ETF or sub-sector of the market, such as biotechnology.)

### The University’s investment office is thinly staffed (3 total personnel: 2 investment professionals and 1 operations person). In addition to the endowment, the CIO oversees a large charitable trust platform and $1.3 billion operating cash portfolio. Consequently, it relies very heavily on the investment consultant relationship. Considering that fact, please address the following:

#### Is this typical of your current E&F client base?

#### If it is atypical, does it alter your approach to the University as a client, and how?

#### Are there any limits your firm places on advisory clients that the University must be aware of, such as limited calls to the consultant team and/or research staff, or quotas on ad hoc reports?

### Please describe your firm’s experience analyzing and ability to address an educational institution’s spending policy.

### Does your firm have experience analyzing and making policy recommendations on any of the following topics?

* Underwater endowments
* UPMIFA compliance
* Investment pool unitization
* Governance structure
* Endowment accounting
* Client investment staffing and/or operations

### Given the complexity of institutional portfolios, particularly those invested in hedge funds and illiquid, draw-down LPs, does your firm have an opinion on minimum cash levels? If so, does the presence of a futures overlay or cash securitization program affect the recommendation?

### How would your firm analyze and track portfolio liquidity?

## Implemented Consulting/Back-office Support

### Please describe all the services your firm offers to assist clients with the administration of their investment portfolios (referred to in this document as implemented consulting).

### Specifically, does this function provide assistance with new manager/fund subscription documents, and if so, how?

### Does this function provide guidance, provided by the research staff, on LPA amendments, attestations, MFN selections, etc?

### Please describe the team and personnel dedicated to this function. Include biographical information on the senior leadership and the personnel the University would interact with on a regular basis. Does the same team service all your firm’s clients?

### Is implemented consulting a growing area of your business?

### Do you outsource any components of this function, or is this done in-house?

### Approximately what percent of your clients utilize these services?

### Does this group have access to the legal/compliance segments of your firm?

## Case Studies

### You begin a new relationship with a client and perform an asset allocation study for them as one of the first steps of the new partnership.

#### Describe the process by which you construct an appropriate asset allocation for a new client.

#### Discuss the quantitative and qualitative asset allocation tools you employ. For quantitative tools, be sure to include the methodology upon which those tools are based, the limitations of those methods, and how your firm works around those limitations or overcomes them.

#### Describe how your capital markets projections are derived, who is responsible for creating them, and how these projections affect client strategic asset allocations. If you do not use capital markets projections, explain why and describe what data you use in the asset allocation studies in lieu of these forward-looking projections.

#### Once the allocation has been determined, how do you keep your clients updated on changing views at the firm, particularly as markets evolve or conditions change? How often does this result in a change of asset allocation for your clients?

### A brand-new endowment has come to you with $1B in cash. The board of directors looks to you in a discretionary capacity to design and implement the manager selection for this new investment pool. Please use the following assumptions:

### Return objective of 4.5% spend rate +1% admin fee + CPI

### Risk appetite: commensurate with a 60% equity/40% bond portfolio

* + - Spending needs of no more than 4.5% annually
    - For other assumptions, please use the University of Tennessee endowment’s existing Investment Advisory Committee charter as a guide.

#### Describe the manager selection process for this client.

#### Discuss how you, at the behest of the client, would include undiscovered, esoteric, or smaller managers in the portfolio. Include a discussion of the research resources brought to bear in identifying such managers.

#### Provide the proposed portfolio, including manager choices for each asset class, along with the expected return and risk calculations.

### An endowment portfolio was in compliance with its policy but new gifts and market movements have moved the allocation off the exact targets.

#### How does your firm prefer to actively monitor a portfolio?

#### What drives the rebalancing decision: calendar/timing, ratios, quantitative measures, and/or other?

#### If a client does not have an established methodology, what would your firm suggest?

#### If cash is materially above target, how would your firm arrive at a recommendation for investing that cash? Is this determined solely by the consultant/team, or are any additional internal resources, methods, and/or compliance utilized?

## Client Service and Investment Philosophy

### Describe your client service philosophy and how you measure your success as an investment consultant? Limit responses to 2 paragraphs.

### What is a reasonable expectation for frequency of communication including face-to-face meetings?

### Describe your firm’s process for developing an investment policy statement (IPS). Be sure to include how and when you include board of directors/investment committee input.

### How often does your firm recommend a formal review of the investment policy statement?

### Describe the internal controls designed to assure compliance with the client’s investment policy statement.

### Other than in development of an IPS, describe how the consultant team works with a client to make decisions that affect the portfolio.

### Describe your firm’s investment philosophy, including your approach to risk management.

### Does your firm subscribe to any style or philosophy of investing? If so, how is this applied and to what asset classes?

### What are your views on factor-based investment strategies in a portfolio?

### How does your firm approach quantitative or black-box strategies?

### Describe your views of active versus passive investment management. In what situations would you recommend passive management and why?

### Discuss your view of the role of alternative investments (absolute return, real estate, private equity, etc.) in a $1B public endowment portfolio.

### For a portfolio of our size, discuss your views of implementing manager ideas through commingled accounts versus separate accounts. If you prefer commingled accounts, at what size portfolio may we start considering separate account mandates?

### Do you make short-term “tactical” asset allocation or manager allocation recommendations during volatile periods and/or market events?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes (answer the following questions): |
|  | Provide your firm’s definition what constitutes a tactical recommendation. |
|  | Give a recent example of a tactical recommendation. |
|  | State how you define and manage risk associated with tactical recommendations. |
|  | Are there differences in tactical recommendations made to discretionary and non-discretionary clients? |

### Describe the process of evaluating legacy investment manager relationships in a new client portfolio. Include how managers who aren’t currently covered by the firm’s research team are addressed.

### How do you apply accountability for your manager recommendations? Provide an evaluation of your success recommending active managers, including quantitative data from your universe of manager recommendations.

### Does your firm develop opinions on segments of the market and/or asset classes regarding over/undervaluation and recommend under/overweight positions short or long-term?

### What is your firm’s position on contrarian investing?

### “Valuation should guide investment decisions.” Does your firm agree or disagree? Please explain.

### Please provide two or three examples of innovative asset allocation or other investment strategies that your firm has recommended to clients.

## Asset Allocation and Portfolio Construction

### Does your firm have a team or department dedicated to asset class/market research, asset allocation, portfolio/benchmark construction, etc? If so, how do you believe it is superior to competitors?

### What, if any, additional investments in technology and/or personnel has your firm made in the areas of asset allocation and/or portfolio construction?

### Over the last 5 years, what changes, if any, has your firm made in its approach to asset allocation, benchmarking, and/or portfolio construction?

### How does your firm allocate capacity across its client base with those managers who cannot accommodate all your clients? Do discretionary clients get any form of priority over non-discretionary?

### What percent of your clients with long-term funds have an allocation to hedge funds? What percent of that group is fund-of-funds versus direct investments?

### What is the typical E&F non-discretionary client’s allocation to hedge funds as a percent of assets? Please provide a % breakdown by strategy, for example long/short equity, global macro, credit, etc., if available.

### Please provide a total number of all hedge funds recommended, and subdivide by strategy/type.

### Describe your firm’s approach to credit. Please address in the context of long-only, hedge funds, and private debt.

### Does your firm utilize any esoteric credit strategies, such as structured credit, consumer loan pools, distressed commercial real estate loans, etc?

### Describe your firm’s approach to real assets. Include the following in your answer:

#### Expectations for and purpose served by real assets

#### How to size a real asset allocation

#### Asset classes included, e.g. oil and gas, real estate, etc.

### Assuming there are no prohibited categories, how is the mix of real asset categories determined (i.e. the percent in energy, real estate, agriculture/land use, etc.)?

### ***For the following questions, please consider “private capital” to encompass traditional private equity, venture capital, private debt, secondaries, and private real assets in the form of long-term draw-down limited partnerships (LPs), not hedge funds.***

### How does your firm approach constructing and implementing a private capital program for an investor like the University?

### Does your firm have cash flow models (i.e. projected capital call and distribution schedules over a fund’s life cycle) for draw-down LPs, and if so, do they vary by type? Are these proprietary or based on a third-party’s modeling?

### Does your firm explicitly model the “J-curve” impact in its private capital planning for clients? If so, please describe.

### What percent of your clients with long-term funds have an allocation to private capital? What percent of that group is fund-of-funds versus direct investments?

### What is the typical $500+ million non-discretionary client allocation to private capital as a percent of assets? Please provide a % breakdown by strategy, for example private equity, venture capital, private natural resources, private credit, private real estate, etc.

### Please provide a total of all private capital funds covered and recommended, and please subdivide by strategy/type.

### Some firms have a preference regarding private equity investments, for example, funds above $1 billion or “buy-and-build” strategies. Does your firm have any such leanings?

## Research Capabilities and Procedures

### Do you have personnel dedicated to manager research?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes |

### Describe how manager research is handled by your firm.

### Describe the internal structure and organization of your firm’s research department, including the geographical location of the research staff.

### Are dedicated employees assigned to particular asset classes? Describe, including the number of researchers assigned to cover each asset class, if applicable.

### Is research a defined career path at your firm?

### What is the ultimate goal of your manager evaluation process?

### How is the workload divided between senior and junior members of your research department?

### Please describe in detail how your research team and personnel are compensated. Include in your answer all quantitative and qualitative components, such as # of managers recommended, absolute or relative performance, recommendations accepted/approved, material published, etc.

### What is your method for gathering information on investment managers? Describe any information sources and databases you employ for research, and indicate whether these sources are internal or external.

### Provide a detailed description of your firm’s investment manager evaluation process, both initial and ongoing. Be sure to address the role that on-site visits play, if any.

### Is operational due diligence performed as part of the manager evaluation process?

### Do you rate managers?

|  |  |
| --- | --- |
| \_\_\_\_\_ No. Describe how managers are determined to be appropriate for client portfolios. | \_\_\_\_\_ Yes. Describe how the manager rating system is organized. |

### Do you have a dedicated program in place to identify emerging managers (i.e. smaller managers who have promise but have not yet garnered a lot of institutional clients)?

|  |  |
| --- | --- |
| \_\_\_\_\_ No. | \_\_\_\_\_ Yes. |

### Regardless of whether you have a dedicated program in place, discuss your firm’s approach to identifying, vetting, and engaging emerging managers. How does this approach differ from the traditional manager research process?

### How do you detect underlying investment manager conflicts of interest?

### Does your organization negotiate fees and/or minimum account sizes with investment managers?

|  |  |
| --- | --- |
| \_\_\_\_\_ No | \_\_\_\_\_ Yes (answer the following questions): |
|  | Would the University be of size and scale to benefit from these negotiations? |
|  | Provide a recent example of a successful fee reduction secured for clients. |
|  | Provide a recent example of a successful minimum account size reduction secured for clients. |

### How do you ensure strong communication and sharing of client-appropriate ideas between the consulting team servicing a client and the research department?

### The following questions are specific to the firm’s alternatives research capabilities.

#### Does the manager due diligence process vary for alternative investments?

#### How do you ensure that your clients get access to the alternatives managers you recommend?

#### In the private equity space, do you consider or recommend allocations to secondaries? Provide details on your use of secondaries as well as your thoughts on the current market environment.

### How does your consultant/team and/or firm typically interact with clients on manager recommendations? Please address the following in your response:

#### Discussion with consultant

#### Discussion with research analyst/team in addition to or in lieu of consultant

#### If additional information is required beyond that provided in a manager report, can the client approach the research analyst/department, or does that need to come from the manager?

### Do any of your research staff have client-service responsibilities outside the research function? What percent of their time is dedicated to research versus client interaction, education, etc?

### Please provide two examples of manager recommendations that have gone wrong and required termination.

### Please indicate whether your firm covers and/or recommends the following managers:

|  |  |  |  |
| --- | --- | --- | --- |
| **Manager** | **No** | **Yes (Covers)** | **Yes (Recommends)** |
| Carousel Capital |  |  |  |
| Field Street Capital Management |  |  |  |
| Homestead Capital |  |  |  |
| Indus Capital Partners |  |  |  |
| Msouth Equity Partners |  |  |  |
| Palo Alto Investors |  |  |  |
| Parallax Volatility Advisers |  |  |  |
| Pelican Energy Partners |  |  |  |
| Pointer Management |  |  |  |
| Resource Land Holdings |  |  |  |
| Rimrock Capital Management |  |  |  |
| River Associates |  |  |  |
| Scout Energy Partners |  |  |  |
| Strategic Value Partners |  |  |  |
| Varde |  |  |  |

## Performance Reporting

### What factors do you consider to be critical elements of performance reporting?

### What is the ramp-up time for reporting from the inception date of a new endowment client?

### What quality control processes and written policies do you have in place to monitor the accuracy of reports?

### Describe the software systems used in performance reporting. Are these in-house or purchased from an outside vendor? Identify the vendor, if applicable.

## References and Additional Information

### Provide a list of at least five references (two from previous clients) that the Client may contact. Provide contact information for each reference including name, phone number, and email address.

|  |  |  |  |
| --- | --- | --- | --- |
| **Client Name** | **Contact Name, Phone Number, and Email Address** | **Plan Asset Size** | **Number of Years as a Client** |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

### What are the firm’s key strengths?

### What are the firm’s key weaknesses?

### Other than the above criteria what else, if anything, makes your firm the right fit for our organization?

# Index of Requested Documents

In addition to the RFQ\_S response, we ask that the following attachments be provided:

1. Form ADV Part I and II
2. Organizational chart: firm level
3. Organizational chart: research department
4. Biographies for consultant team members assigned to this relationship
5. Firm pitchbook
6. Representative client list
7. Capital markets outlook and sample of how the projections are calculated
8. Sample performance report
9. Sample asset allocation study
10. Manager research report samples
11. Sample advisory relationship contract

**Section D: Cost Proposal**

**Please note the University is requesting separate fee proposals for Investment Consulting services and Implemented Consulting services, both of which are part of this RFQ-S.**

**Investment Consulting:** To facilitate the University’s analysis of services, please provide a fee schedule based on assets under advisement that includes all investment advisory services listed below. If possible, please provide a second format stated as a flat annual fee.

**Investment Consulting Services:**

The investment consultant will serve in a fiduciary capacity in providing at a minimum, the following consulting services:

1) Advise on asset allocation and other long-term investment policies:

* Provide annual asset allocation study incorporating updated, long-term forecasts for return, risk, and correlation
* Work with staff on an ongoing basis to evaluate the effectiveness of the current portfolio structure relative to investment objectives and, if necessary, make recommendations for any changes
* Provide annual risk review that contains detailed analysis on key sources of risk for use in asset allocation and portfolio structure decisions
* Conduct annual review of investment policy statement and suggest enhancements as needed

2) Provide ongoing economic, capital market, and manager updates and input to assist in rebalancing decisions.

3) Provide a monthly report based on the most current information provided by the custodian and investment managers detailing the following for the portfolio, each composite, and each investment manager:

* Market value and % of assets
* Portfolio asset allocation (%)
* Net of fees performance for the following time periods with associated benchmarks:
  + Current month and quarter
  + Fiscal Year-to-Date (the University’s fiscal year is July 1-June 30)
  + Calendar Year-to-Date
  + Trailing One, Three, Five, Seven, and Ten Years
  + Since inception
  + Inception date the portfolio and for each composite

The Report may also contain a broad summary of equity, fixed income, and alternative market benchmarks for the periods listed above.

4) Provide quarterly performance report containing the following:

* Firm generated market summary and performance of the primary asset classes for the current quarter
* Portfolio asset allocation for the current quarter
* Net and Gross of fees performance returns for the total portfolio, each composite, and each investment manager for the following time periods:
  + Current quarter
  + Fiscal Year-to-Date
  + Calendar Year-to-Date
  + Trailing One, Three, Five, Seven, and Ten Years
  + Since inception
* Comparative returns for the above periods for appropriate market and custom indices and peer universes.
* A summary of the most recent private capital investments, detailing commitments (tracking of funded and unfunded), valuations, paid in capital and distribution amounts, time-weighted returns for periods available, IRR’s, PME’s, quartile ranks, and fund multiples.
* Historical returns by calendar year and fiscal year for the total portfolio, each composite, and each investment manager.
* Current quarter, fiscal year-to-date, one, three, and five-year attribution analysis for the portfolio (detailing over/underperformance by asset class) and composite (detailing over/underperformance by investment manager).
* Detailed analysis of performance for each investment manager explaining over/underperformance and portfolio characteristics as compared to the appropriate market index.
* Appendix to the performance report with (1) returns of the major capital markets; (2) description of benchmarks and universe rankings; (3) portfolio holdings; and (4) a detailed listing of fee schedules for each investment manager.

5) Attend in person all Investment Committee meetings, typically held quarterly, and participate in any critical ad-hoc calls/meetings.

6) Serve as the University’s primary resource for all matters related to the portfolio’s investment managers, including:

* Original sourcing, which will entail full operational and fundamental due diligence
* Providing complete, detailed reports on each manager/fund position and potential manager/fund investments under consideration
* Conduct requested manager searches and full due diligence per the contract terms

7) Assist in ongoing evaluation of investment managers. Services include:

* Monitor all investment managers and provide timely updates and recommendations regarding material developments
* Prepare formal memorandums that summarize significant issues and provide recommendations on any next steps
* Maintain full research coverage of investment managers, including onsite due diligence meetings

8) The University may have a need for other investment consulting services not listed above. It is anticipated that the successful candidate, as the University’s investment consultant will, under this contact, have the right to provide requested services to the University on all additional or specialized investment consulting services.

**Implemented Consulting:** Please provide separate fee schedules similar to those listed above and enumerate which services are covered by the schedules provided, taking care to note any limits or exclusions to items

**Implemented Consulting Services:**

In addition to the Investment Consulting services listed above, the University seeks to procure “back office” support for investment/portfolio operations. The desired services will include the following:

1. Tracking and facilitating completion process for new investments, including required documentation and timelines/deadlines for submission of all materials
2. Assistance in completing subscription/account documents for new positions in both standard and alternative funds, partnerships, and accounts
3. Guidance with regard required selections and/or approval in MFN letters, investment-related amendments, attestations, regulatory status, and other periodic documents
4. Assisting with manager/fund back office communications

**Appendix: Investment Advisory Committee Charter**

Investment Advisory Committee Charter and Operating Policy

December 12, 2017

**PURPOSE**

The purpose of this Investment Advisory Committee Charter and Operating Policy (hereinafter “Charter”) is to establish a clear understanding of the philosophy and the investment objectives for the University of Tennessee Consolidated Endowment Investment Pool (hereinafter, "Pool"). This Charter will further describe the standards that will be embraced by the Investment Advisory Committee in advising the Treasurer and Chief Investment Officer, establishing investment strategies, determining asset allocation, monitoring investment performance, as well as, serve as a guideline for any investment manager retained.

While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term distributions with preservation of the real, inflation-adjusted value of assets, is crucial to the long-term success of the Pool.

**SCOPE**

This document applies only to those assets that are a part of the Consolidated Investment Pool and for which the University and the Investment Advisory Committee have discretionary authority.

**AUTHORITY**

Article III, Section 7 of the University of Tennessee bylaws charges the Finance and Administration Committee of the Board of Trustees with responsibility to advise the Board on investment performance, strategy, and returns. The Board-approved Charter of the Finance and Administration Committee provides that the Committee shall recommend to the Board policies relating to investment of University funds. In November 2017, the Board of Trustees adopted the most recent version of its Investment Policies and Procedures (hereinafter “Policy”). Like prior versions, the Policy provides for an Investment Advisory Committee and calls for it to adopt a charter establishing a clear understanding of the philosophy and the investment objectives of the University of Tennessee consolidated investment pool.

**FIDUCIARY DUTY**

In seeking to attain the investment objectives set forth in the Policy, the Investment Advisory Committee and its members shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). All investment actions and decisions must be based solely in the interest of the Pool. Fiduciaries must provide full and fair disclosure to the Investment Advisory Committee of all material facts regarding any potential conflicts of interests.

**DEFINITION OF DUTIES**

**Investment Advisory Committee**

The Investment Advisory Committee is responsible for adopting the provisions of this Charter. This responsibility includes advising the Treasurer on the appropriate investment strategy within acceptable risk tolerances, resulting asset allocations and spending rates; evaluating investment consultants (at least annually); and monitoring performance of the investment portfolio on a regular basis (at least quarterly). The Committee will maintain sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Policy and Charter.

**Treasurer’s Investment Office**

The Treasurer’s Investment Office has daily responsibility for administration of the investment portfolio (including hiring/dismissing fund managers) and will consult with the Investment Advisory Committee and the investment consultant on matters relating to the investment of the portfolio. The Investment Office will serve as primary contact for the portfolio’s investment managers, investment consultant, and custodian.

**Investment Consultant**

The Investment Consultant is responsible for assisting the University Treasurer and Investment Advisory Committee in all aspects of managing and overseeing the investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

a. Provide the Investment Advisory Committee with quarterly performance reports;

b. Monitor the activities of each investment manager or investment fund;

c. Provide proactive recommendations on asset allocations (strategic as well as tactical), manger hiring and/or dismissal;

d. Supply the Investment Advisory Committee with other reports (e.g. asset class studies, portfolio construction) or information as reasonably requested;

e. Review this Charter with the Investment Advisory Committee at least annually.

**OBJECTIVES**

The overall, long-term investment objective of the Pool is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending, thus protecting the assets against inflation. The assets are to be managed in a manner that will meet the long-term investment objective, while at the same time attempting to limit the volatility in year-to-year spending.

**STRATEGY**

The Investment Advisory Committee believes that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies (e.g. diversifying strategies) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

**ASSET ALLOCATION**

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category. To ensure broad diversification, the asset allocation will be set with the following target percentages and within the following ranges:

|  |  |  |
| --- | --- | --- |
| **Asset Category** | **Target** | **Range** |
| **GLOBAL EQUITY** | **45%** | **40 - 60%** |
| ***Public*** | ***25*** |  |
| ***Private*** | ***15*** |  |
| ***Hedged (long/short)*** | ***5*** |  |
| **GLOBAL FIXED INCOME** | **20** | **10- 30** |
| ***High Quality/ Rate Sensitive*** | ***4*** |  |
| ***Cash*** | ***1*** |  |
| ***Credit/Distressed*** | ***15*** |  |
| **REAL ASSETS** | **20** | **15-25** |
| ***Real Estate*** | ***6*** |  |
| ***Natural Resources*** | ***14*** |  |
| **DIVERSIFYING STRATEGIES** | **15** | **10-20** |

*Global Equity* – The allocation will consist of public and private equity-oriented funds managed by external investment firms. This is expected to be the highest risk, highest return asset category of the four. The allocation will be diversified by factors including security, sector, geography, market capitalization, and manager style.

*Global Fixed Income*– The allocation will consist of three broad categories: 1) high quality/rate sensitive 2) cash and 3) credit/distressed. High quality bonds are defined assecurities rated investment grade by S&P and Moody’s (Baa/BBB and above).These bondsprovide equity risk mitigation, deflation protection and liquidity to the portfolio. The credit / distressed allocation will include high yield bonds, bank loans, emerging market debt, structured or asset backed bonds, mezzanine loans and distressed debt. The credit / distressed allocation provide investment opportunities to generate a substantial real return.

*Real Assets* **–** the allocation will consist primarily of real estate and natural resources including oil and gas partnerships, timberland, and commodities. These investments are expected to provide inflation protection as well as generate positive real rates of return.

*Diversifying Strategies* **–** the allocation will consist of investments whose primary source of risk and return is not a constant allocation to one of the three asset classes listed above. This includes, but is not limited to, hedge funds whose approach can be described as “absolute return”, multi-strategy, event driven, relative value, or global macro.

**Active vs. Passive Management**

The asset allocation will be implemented using both active and passive investment managers. Within the most efficient markets, passive management may be preferred; within less efficient markets, active management may be preferred.

**Investment Styles**

Over the long-term, price matters. To reflect this in the portfolio, tactical over/under weights to certain asset classes will occur. Additionally, significant allocations may occur to investment managers that recognize the importance of price in asset returns over the long-term.

**Rebalancing**

The Treasurer, with advice from the investment consultant, will monitor the asset allocation structure of the investment pool and attempt to stay within the ranges allowed for each asset category. If the portfolio moves outside of the ranges, the Treasurer will develop a plan of action to rebalance the portfolio.

### **ILLIQUID INVESTMENTS**

**Liquidity**

A goal of the Pool is to maintain a balance between investment goals and liquidity needs. Liquidity is necessary to meet the spending policy payout requirements and any extraordinary events. The Committee understands that in many instances, investment opportunities come with liquidity constraints. The tradeoff between opportunity and liquidity will be considered throughout the portfolio construction process.Sufficient liquidity should be maintained to fulfill the spending and operating objectives of the Pool. Portfolio liquidity will be monitored using a three-tier system:

* Liquid: available within 90 days
* Semi-liquid: available in 90 days or more but less than 2 years
* Illiquid: available only in 2 years or more

Classification of Asset Guideline

Liquid no less than 35%

Combined: Semi-liquid & Illiquid no more than 65%

Illiquid no more than 35%

New commitments will be made to illiquid/private capital investments with the intent to keep current market value of liquid holdings above 40% of the total Fund.

**Illiquid and Semi-Liquid Investments**

These include private capital (private equity, private debt, and real assets) which are considered illiquid, and hedge funds which are considered semi-liquid (due to lock-up periods, redemptions, restrictions, and in some but not all cases, illiquidity of the underlying investments). These investments are commonly referred to as “alternative investments”. Most hedge funds, therefore, will be classified in the semi-liquid category listed above. Below is the role each play with the portfolio.

*Private Equity* - The objective of the allocation is to outperform, over the long-term, the public equity markets by 3-5% points, net of fees. The return premium exists due to the lower cost of capital, higher risk, lack of liquidity, and the uneven distribution of information and access inherent in private markets.

*Private Debt -* The objective of the allocation is to outperform, over the long-term, the public debt markets by 3-5% points, net of fees. The return premium exists due to the higher risk (i.e. distressed debt), lack of liquidity, scarcity of capital, and the uneven distribution of information and access inherent in private markets.

*Private Real Assets -* The objective of the allocation is to serve as an inflation hedge and to generate a substantial real (net of inflation) return. We believe the private markets also offer inefficiencies that can be exploited by top tier investment managers. Investments will include, but are not limited to private real estate, private energy partnerships and timberland.

*Hedge Funds -* Hedge funds are not an asset class, but rather an investment vehicle. Funds will be included, therefore, in one of the four broad asset categories based on the primary risk and asset class exposure within the fund. The general types of hedge funds that will be included in each asset category are listed below. The first three types listed are directional hedge funds strategies that tend to invest opportunistically in a broadly defined market with few constraints. As net long-biased strategies, these funds will tend to be somewhat correlated with market movements, but generally do not closely track a market benchmark. These funds will take both long and short positions, use leverage and derivatives, and actively manage market exposure. The role of these funds is to provide market exposure (and returns) in a more risk controlled manner.

*Global Equity* – long/short equity hedge funds with a net long bias.

*Global Fixed Income* – long/short credit and distressed debt focused funds with a net long bias to credit related securities.

*Real Assets* – commodity, REIT or master limited partnership (MLP) focused funds.

*Diversifying Strategies* – these hedge fund strategies consist of investments whose primary source of risk and return is not determined by a constant allocation to any one asset class. This includes, but is not limited to strategies described as “absolute return”, multi-strategy, event driven, relative value, or global macro. These managers typically do one or both of the following:

Use unique strategies whose source of risk and return is not dependent upon the direction of any asset class. This would include strategies such as merger arbitrage, convertible arbitrage, capital structure arbitrage, basis trades, etc.;

Are opportunistic allocators of capital across asset classes; In other words, they will be long certain equities, credits or commodities at a given time, based on the market environment and their skill set. They will not, however, have a consistent net long bias with any asset class over time.

### **SPENDING POLICY**

Income available for spending is determined by a total return system. The amount to be spent annually is 4.5% of a rolling average of the market value measured at December 31. In June of 2014, the Board of Trustees approved modifications to the spending formula calculation, which provided for a four-year transition from a three-year to a seven-year rolling average. Beginning in fiscal year 2016, the spending formula is to be adjusted annually to include one additional year in the rolling average calculation until seven year-end values are included in the calculation of the fiscal year 2019 formula. Thereafter, each year’s calculation will incorporate the full seven-year rolling average market value.

In addition, the Board approved imposing both a maximum and minimum distribution rate on each year’s calculation. Beginning in fiscal year 2016, the maximum and minimum distribution rates will be 6% and 3%, respectively, of the previous calendar year’s market value.

An additional 1.0% administrative fee on the previous calendar year-end market value will be charged for accounting and development activities. UPMIFA allows for spending from “underwater” endowments (below historic gift value), but requires spending to be prudent. The Investment Advisory Committee will consider the prudence standard if and when continued payouts made are from underwater funds.

**TIME HORIZON**

The Investment Advisory Committee seeks to outperform the benchmarks over a full market cycle. The Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant deviations relative to the broad markets. For this reason, long-term investment returns (net of fees) will be measured over a 10-year moving period. Nevertheless, the Investment Advisory Committee acknowledges the need to evaluate and make any necessary changes regarding investment managers over a shorter-term using the criteria established under "Manager Evaluation".

**TOTAL PORTFOLIO BENCHMARKS**

1. The primary performance objective of the Pool is to achieve a total return, net of fees, in excess of spending and inflation: ***Total Return greater than Consumer Price Index + 5.5%***
2. A second objective is to outperform a simple stock/bond allocation that has a similar risk profile at the Pool, and could be replicated with low cost index funds. This ***Broad Policy Benchmark*** is 60% MSCI All Country World Investable Market Index, 39% Barclays Global Aggregate Bond Index, and 1% U.S. 91-Day Treasury Bills.

1. A third objective is to achieve a total return in excess of the Target Weighted Index comprised of each asset category benchmark weighted by its target allocation. The targeted allocations are to be attained over a longer period as investment opportunities are available in the illiquid asset categories. ***The current Target Weighted Index is:***

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset Category** | **Target** | **Index** | |
| **GLOBAL EQUITY** | **45%** | |  |
| Public | 25 | | MSCI ACWI IMI |
| Private 1 | 15 | | ThomsonOne All PE |
| Hedged (long/short) | 5 | | HFRI FOF: Strategic |
| **GLOBAL FIXED INCOME** | **20%** | |  |
| High Quality/ Rate Sensitive | 4 | | Barclays Int. GV/CR Index |
| Cash | 1 | | U.S. 3 Month T-Bills |
| Credit/Distressed 1,2 | 15 | | Manager specific |
| **REAL ASSETS** | **20%** | |  |
| Real Estate 1, 3 | 6 | | Manager specific |
| Natural Resources 1, 4 | 14 | | Manager specific |
| **DIVERSIFYING STRATEGIES** | **15%** | | **HFRI FOF: Conservative** |

1. A final objective is to achieve a total return in excess of peer institutions, with a specific focus on the NACUBO endowment categories of comparable size to the University’s.

Benchmark percentages will vary depending upon the managers selected and the current allocation to private capital (illiquid) investments, which cannot be precisely managed. The specific benchmarks and weightings will be listed in the performance report.

1 Private capital refers to private equity, private debt and private real assets. For benchmarking purposes, the weighting will be based on the current allocation not the target. Due to the nature of private capital, the weightings can’t be precisely controlled. It depends on the rate of commitments, calls and distributions. Therefore, we will “float” the weighting across the other asset classes in the portfolio until the target is achieved.

2 The weighting of the Credit/Distressed benchmark will depend on the actual investments made. The benchmark could include the HFRI ED: Distressed/Restructuring for distressed debt investments, ThomsonOne Distressed for private debt investments, Barclays Investment Grade CMBS Index for commercial mortgage backed security investments and various other indices/peer groups for credit hedge funds and private credit.

3 The weighting of the Real Estate benchmark will depend on the actual investments made. The benchmark could include public indices, such as the S&P Developed Global Property Index for global REIT investments, and a variety of market indices/peer universes for private real estate investments.

4 The weighting of the Natural Resources benchmark will depend on the actual investments made. As an example, the benchmark could include the ThomsonOne peer group for private equity investments, NCREIF Timberland Index for timber investments, Alerian MLP Index for Master Limited Partnership investments, and various commodity indexes.

**MANAGER EVALUATION**

Each active manager will be reviewed on an ongoing basis and evaluated upon the criteria listed below. Managers are expected to outperform their benchmarks over a full investment cycle (for measurement purposes: 5 years for public investments and 10 years for private investments). It is not expected that all investment objectives will be attained in each year and over various time periods, investment managers may produce significant underperformance. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

* + 1. Maintaining a stable organization
    2. Retaining key personnel
    3. Avoiding regulatory actions against the firm, its principals, or employees
    4. Adhering to the guidelines and objectives of this Investment Policy Statement
    5. Avoiding a significant deviation from their stated style
    6. Exceeding the return of the appropriate benchmark
    7. Exceeding the median performance of a peer group of managers with similar styles of investing

Although there are no strict guidelines that will be utilized in selecting managers, the Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, strength of business management and operations, and the amount of assets the Fund already has invested with the firm.

**SUMMARY OF QUANTITATIVE PERFORMANCE OBJECTIVES**

**Long-Only Active Managers**

Managers are expected to outperform their primary benchmark and rank in the top 50% of their peer universe. Managers failing to meet these criteria over a full investment cycle will undergo extensive qualitative and quantitative analysis. This analysis will focus on the manager’s personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.

**Hedge Funds**

Most hedge funds do not have good benchmarks to measure performance, especially over short time periods. Managers will be measured relative to peer benchmarks such as the various style indices tracked by HFRI. Secondary benchmarks will also be used, including relevant asset class benchmarks (such as the S&P 500 for the U.S. focused long/short equity fund) and absolute return measures (T-bills + X%).

**Private Capital Managers**

The majority of private equity, private real estate, and natural resource funds will be invested with private partnerships. These partnerships typically range from 7-15 years in life, during which time the Fund may not be able to sell the investment. Additionally, the partnership may not produce meaningful returns for 3-5 years (depending on the strategy). New investments will create a drag on fund performance in the early years (3-5 years) until these investments begin to mature. This drag on performance is often referred to as the J-curve, due to the shape created by plotting a line graph with performance on the y-axis and time on the x-axis. Private, illiquid manager performance will be measured utilizing internal rate of return (IRR) calculations and compared to an appropriate peer group. An IRR calculated from the inception of the partnership will be the primary performance measurement tool utilized for all private capital managers. Performance will be measured relative to the best available benchmark, understanding that some investments may not have entirely comparable indices.

**GUIDELINES AND RESTRICTIONS**

In today's rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, will determine whether an appropriate standard of reasonableness, care and prudence has been met for the Pool's investments. Each investment manager, therefore, shall have the full investment discretion with regard to security selection consistent with this Charter, subject to the oversight of the Investment Advisory Committee, Treasurer, and Investment Consultant.

**Asset Category Diversification Guidelines**

Below are the guidelines by asset category:

*Global Equity* – Ensure that 1) the allocation is diversified by the number of stocks, sector, geography and market capitalization, and 2) not more than 10% of the total fund will be invested in a single active manager.

*Global Fixed Income* – 1) A minimum of 5% of the total fund will be invested in high quality securities, as defined above, and cash, 2) not more than 10% of the total fund will be invested in a single high quality/rate sensitive active manager, and 3) not more than 5% will be invested in a single credit/distressed manager.

*Real Assets* - Ensure that 1) the allocation is diversified by the number of holdings, asset type, geography and sector, and 2) commitments will be made with the objective of having not more than 5% of the total fund invested in a direct manager.

*Diversifying Strategies* - Ensure that 1) the allocation is diversified by number of holdings, sector, geography and strategy, 2) not more than 5% of the total fund will be invested in a direct manager, and 3) not more than 10% in a fund of funds.

**Derivative Securities**

For definition purposes, derivative securities include, but are not limited to, futures contracts, options, and swaps. Derivatives may be utilized by managers with expertise in the use of such derivatives, and the investment is considered “prudent” within the intent of UPMIFA. The Committee will expect the manager to invest in a way that appropriately manages the risk of investing with derivatives.

**Stewardship and Investment Responsibility**

The primary goal of the Consolidated Investment Pool is to generate a sustainable stream of distributions to support the University’s programs. Mindful of this objective, the Investment Committee may consider the extent to which an investment is consistent with the principles and goals of the University of Tennessee. Where appropriate, the University may seek to influence or avoid those investments that conflict with those principles and goals. Action will only be taken, however, if the Investment Committee believes it would not cause harm to the investment objectives of the Pool, impair performance, or place a material burden on then current resources.

**CONCLUSION**

We recognize the importance of adhering to the mission and strategy detailed in this policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission, and therefore, recognize that suggestions regarding appropriate adjustments to this policy or the manner in which investment performance is reviewed are welcome.