



**STATE OF HAWAII**  
EMPLOYEES' RETIREMENT SYSTEM  
December 7, 2012

ADDENDUM NO. 2  
Employees' Retirement System of the State of Hawaii  
Request for Proposals  
Private Equity Consultant Services  
RFP 2012-04

Issued November 19, 2012

**OFFERORS:**

In accordance with Section VI. of the Request for Proposals, the Employees' Retirement System of the State of Hawaii (ERS) is providing the following responses to questions from potential offerors:

1. **QUESTION:** Section A, Q.9 - "What do you consider to be your firm's consulting specialties, strengths, and limitations? What services, if any, does your firm (or any subsidiary) offer in addition to pension fund real estate consulting services? General or real estate consulting services offered?" – should this read "in addition to Private Equity consulting services"?

**RESPONSE:** The first reference to "real estate" should be "private equity".

2. **QUESTION:** Section C, Q.7 – the dates requested read January 1 2006 to December 31 2001 – what dates would you like the data for?

**RESPONSE:** January 1, 2006 to December 31, 2011.

3. **QUESTION:** Is there a current consultant? Is there a private equity consultant?

**RESPONSE:** ERS current consultants are: (1) Pension Consulting Alliance, Inc. (the general Investment Consultant); and (2) Courtland Partners, Ltd. (the Real Estate Consultant).

The contract with the private equity consultant terminated on November 30, 2012.

4. **QUESTION:** Is the RFP re-issued on a certain schedule or is this the first time the RFP was issued?

**RESPONSE:** This is a new solicitation for the ERS to hire a private equity consultant.

5. **QUESTION:** What fees does the current consultant charge?

**RESPONSE:**

Pension Consulting Alliance, Inc. (general consultant): Year 1 -- \$355,000; Year 2 -- \$365,500; Year 3 -- \$376,500; Year 4 -- \$387,750; & Year 5 -- \$399,500.



Employees' Retirement System  
of the State of Hawaii

Courtland Partners, Ltd. (real estate consultant): Year 1 -- \$265,000; Year 2 -- \$270,000; Year 3 -- \$275,000; Year 4 -- \$280,000; & Year 5: \$285,000.

6. QUESTION: With around a trillion in AUM on a consolidated basis, our firm has numerous US public fund clients on the traditional and alternative asset management side, but no US public fund for private equity consulting. Would you consider a consultant whose track record and pedigree is primarily European but with a strong presence in the US on the private equity consulting and manager selection side?

RESPONSE: We would consider a firm with primarily European roots but with strong US PE experience.

7. QUESTION: You seem to place a strong emphasis on avoidance of conflicts of interest. While we have significant experience in these matters as a global financial institution, conflicts of interest could theoretically always be construed to exist, even though they are substantially mitigated through mature policies and procedures. Is the ERS of Hawaii fundamentally opposed to consider an advisor that is affiliated with a larger global financial institution?

RESPONSE: We will consider firms with large firm affiliations; however, those relationships must be fully disclosed. The disclosure must describe the affiliation and business/ownership structure.

8. QUESTION: If the RFP is to rehire or replace your current private equity investment consultant, what prompted the search? Is the incumbent consulting firm allowed or encouraged to rebid?

RESPONSE: The RFP is to hire a nondiscretionary private equity consultant. The previous consultant was terminated due to organizational changes. The previous consultant is welcome to rebid.

9. QUESTION: How long has the incumbent consultant been with your plan?

RESPONSE: The previous consultant's contract commenced in April 2011 (7 months).

10. QUESTION: Who is/are the current specialty consulting firms being used?

RESPONSE: The ERS's general consultant is Pension Consulting Alliance, Inc. The ERS's real estate consultant is Courtland Partners.

11. QUESTION: What is the annual fee being paid to the current consultant(s)?

RESPONSE: See Response No. 5

12. QUESTION: Do you anticipate making any changes to the asset allocation of the fund? Are you considering any new asset classes?

RESPONSE: Changes in asset allocation and addition of new asset classes are always a possibility.

13. QUESTION: Are there any existing or pending restrictions on the private equity investments?

RESPONSE: There are no current restrictions beyond fiduciary and prudent investor considerations; however, limitations may be added particularly when considering emerging market opportunities.

14. QUESTION: What is the most important investment issue your fund is currently facing?

RESPONSE: The most important investment issue facing the ERS is closing the unfunded liability.

15. QUESTION: Please provide a copy of your 2013 meeting schedule in which the investment consultant would be expected to attend. Please include workshops dates in the schedule.

RESPONSE: The 2013 meeting schedule for the Board of Trustees has not been approved yet; however, meetings are usually held the second Monday of the month, except if the second Monday is a Federal or state holiday, in which case the meeting is held on the next business day. The number of meetings required of the consultant is indicated in the RFP. The consultant is expected to present quarterly performance reports to the Board and to attend an annual education conference (usually held the second or third week of July). The consultant is also expected to be available on an ad hoc basis in-person or on the phone. Attendance at meetings might be more frequent at the start of the contract.

16. QUESTION: When was the last asset liability study conducted?

RESPONSE: The last asset liability study was conducted in 2008.

17. QUESTION: What decisions are currently pending with the current consultant that the new consultant would likely become involved with?

RESPONSE: The consultant selected during this RFP will have the ability to review the entire private equity investment program and to make recommendations as it sees fit. Issues that may be addressed include policy guideline review, investment decision-making responsibilities, operations management, and fiduciary role.

18. QUESTION: We are a Canadian headquartered, US registered investment advisor under the Investment Advisors Act of 1940 with US pension plan clients. For the purposes of the mandate described in the RFP, we are considering a joint venture proposal to provide the consulting services (the "Services") in conjunction with a California-based limited liability company through a newly formed entity (the proposed "Offeror") that would be based in the United States. Please confirm whether the Offeror would meet the qualifications for the purposes of the Evaluation of Mandatory Requirements in Part IV as:

1. An investment advisor registered under the Investment Advisors Act of 1940, and
2. Based in the United States (as defined in the RFP).

RESPONSE: The proposed newly formed entity would not satisfy the mandatory requirement that the Offeror must have been in business for a minimum of five years.

19. QUESTION: How many partnership/direct investments are in the portfolio, including within the discretionary manager portfolio?

RESPONSE: Please refer to the Abbott Capital Statement of Investments posted on the ERS website under the notice for this RFP.

20. QUESTION: Do the "program level" performance reports include a roll-up of the performance of the discretionary manager?

RESPONSE: Yes; however, the consultant may recommend any other method that the consultant considers to be appropriate.

21. QUESTION: For reporting purposes, is the requested allocation breakdown by geography and industry at the portfolio company or partnership level?
- RESPONSE: The ERS prefers that the reporting be at the portfolio company level.
22. QUESTION: What is the expected relationship with Abbott Capital moving forward?
- RESPONSE: The relationship with Abbott Capital has not been determined at this time. The private equity consultant will be expected to provide a recommendation as to the appropriate relationship.
23. QUESTION: How many new private equity investments does HIERS expect to make over the next three years? What is the expected commitment size per investment moving forward?
- RESPONSE: The private equity consultant will be expected to provide a recommendation with respect to the number of investments and commitment size per investment based on the target portfolio allocation of 7% over the next five years. Private equity is currently around 3.5% of the ERS's investment portfolio.
24. QUESTION: The RFP does not indicate how you would like to receive the Excel version of the proposal. Do you want it included with the PDF of the proposal on the CD?
- RESPONSE: The Excel should be kept as an Excel document and delivered on the CD.
25. QUESTION: Can ERS provide us additional details and the investment policy statement for the TALF program so that we can better respond to section K, question 7?
- RESPONSE: The general investment policies and private equity investment guidelines apply to the TALF program.
26. QUESTION: We are a business that is not incorporated in the State of Hawaii. Is the CERTIFICATE OF GOOD STANDING required at the time of submission of the proposal, or only at the time of contract/award? If at the time of submission of the proposal, would you like to see the actual CERTIFICATE included or only a reference number?
- RESPONSE: A Certificate of Good Standing from the State of Hawaii must be provided at the time of contract.
27. QUESTION: Are any of the other requirements for doing business in Hawaii required to be met at the time of the proposal submission? (e.g., tax clearance certificate, DLIR certificate of compliance, etc.)
- RESPONSE: All requirements for doing business in Hawaii, including the provision of the various certificates required by the RFP, must be satisfied before the contract can become effective. Offerors or awardees have, from time to time, experienced delays in obtaining the required certificates. Offerors should therefore plan accordingly.
28. QUESTION: Similar to the question above, is the Hawaii GET ID required at the time of the proposal submission, or just a statement that we will get one if granted an award?
- RESPONSE: See response No. 27.
29. QUESTION: Similar to the question above, what licenses/certifications are required at the time of proposal versus at the time of award?
- RESPONSE: See response No. 27.

30. QUESTION: The multi-term solicitation statement says “The proposed annual fixed fee shall be the same throughout the contract, except to the extent that price adjustment may be provided in this RFP and the resulting contract”. Can you clarify this statement? The Fee Proposal form seems to allow for a bid fee that changes from year-to-year, and based on the services requested and the expected ramp up in investment activity, we would anticipate that the fee would change from year to year.

RESPONSE: The annual flat fee does not have to be the same for each year of the contract; however, the fee for each year should be a fixed amount and should include all services included in the Scope of Services.

31. QUESTION: The end of this statement is that “Policy and program oversight would include all ERS private equity advisors and privately-structured fund investments (currently consisting of a discretionary core private equity manager and a discretionary in-state venture capital “HiTIP” program manager). Can you provide any additional detail on what level of oversight of these discretionary managers will be required?

RESPONSE: While the exact nature of the oversight can be further developed once the consultant is selected, it is generally expected that the non-discretionary private equity consultant would have primary responsibility to oversee the core program and the ability to consolidate performance and reporting of the HiTIP program.

32. QUESTION: A similar question, will the discretionary managers provide all of the underlying data necessary for the non-discretionary advisor to prepare program-level performance reports (i.e., down to the underlying fund and even portfolio company level), or will the two discretionary single line-items in the program-level reports?

RESPONSE: The role of the discretionary private equity managers in this process and the format of the performance reports have not been determined; the determination will be made by the Board of Trustees based on the recommendations of the private equity consultant and the general consultant.

33. QUESTION: Can you provide any information on the underlying investments in the HiTIP program? For example, name, how many, current commitment/NAV, future possible direction/strategy/ level of commitments, whether direct investing in companies or in funds, etc.

RESPONSE: Please see [http://ers.ehawaii.gov/wp-content/uploads/2012/10/HIERS\\_PEMacquarie\\_20120630.pdf](http://ers.ehawaii.gov/wp-content/uploads/2012/10/HIERS_PEMacquarie_20120630.pdf)

34. QUESTION: In relation to monitoring the portfolio, what services are expected for the monitoring the underlying funds that are part of the discretionary manager mandates? For example, we note that Abbott has made approximately 150 fund investments on behalf of Hawaii ERS and will likely make more, and that the non-discretionary advisor that is selected will assist staff in making other investments outside of the Abbott or HiTIP umbrella. Is it expected that there will be a consistency in monitoring and reporting across the entire platform, and that the non-discretionary advisor will perform monitoring services and produce monitoring reports consistently across for the whole portfolio?

RESPONSE: It is expected that the non-discretionary advisor will perform monitoring services and monitoring reports for the whole portfolio; however, the exact nature of the private equity program going forward will be evaluated and structured with guidance from the private equity consultant.

35. QUESTION: Similar question to the above, for performance reporting aggregated across the total private equity program, what is the envisioned relationship between the non-discretionary

advisor and the discretionary advisors? Will the discretionary advisors provide data down to the underlying fund and portfolio company level to the non-discretionary advisor for aggregation, or will they just be treated as single line items in the reports?

RESPONSE: The relationship and report structure will be determined by the Board of Trustees, based on the recommendations from the non-discretionary private equity consultant and the general consultant.

36. QUESTION: For meeting support with the legislative and/or executive branches, can you provide any information on how frequently these occur, on average?

RESPONSE: Meetings with the legislative and/or executive branches that require the support of investment consultants and fund managers have been infrequent.

37. QUESTION: Can you elaborate/clarify on the need for both a written Word document to answer the Questionnaire, and what looks like a set of duplicate answers required in the Excel named "PrivateEquityQuestionnaire"? Our understanding is that a full Word document is to be submitted with detailed answers to the questions posed, and that the Excel is also to be submitted with very short answers (30 words or less, etc.) and this will augment our more complete Word document. Is this correct?

RESPONSE: Yes, this is correct.

38. QUESTION: A.9 – this question references "real estate" several times, is it correct to assume this should be "private equity"? If so, is this question the same (essentially) as B.1?

RESPONSE: The first reference to "real estate" should be "private equity".

39. QUESTION: C.2 – we do not manage any discretionary accounts, is it adequate to fill out this table for the AUM for our clients for all of the areas that we provide services to them?

RESPONSE: If you do not provide discretionary management, you may fill out the table with the AUM for all areas in which you provide services to your clients; however, please state in your response that the assets are not under discretionary management.

40. QUESTION: C.1 – Can clarify the meaning of "FMS" and "AS" in the last column of Table 1? Also, we are willing/able to provide additional information about our clients, would it be appropriate to add a few additional columns and include as an exhibit?

RESPONSE: "FMS" and "AS" refer to whether the offeror is acting as a fiduciary or an agent. Offerors can include other information in an exhibit if they choose to do so.

41. QUESTION: D.1 – The question and Table 4 ask for "all professionals within your organization providing Private Equity services". This list would be quite long, would it be adequate to only provide professionals above a certain level?

RESPONSE: If professionals below a certain level are not listed by name, please provide the number of individuals having general characteristics such as level of education, credentials, certifications and years experience managing private equity investments generally and with the firm. Please provide the total number of individuals who are listed only by general characteristics.

42. QUESTION: F.2 – For Table 8 – can you clarify that in the first column you are looking for discretionary dollars committed on behalf of clients in the first column, and non-discretionary dollars recommend for commitments in the second column? As a non-discretionary advisor, our clients may make commitments that do not involve us, and/or may not make commitments that

we recommend due to timing or other issues. We are thus seeking clarification on what would be most useful to you in this table.

RESPONSE: The first column should show the amount of the discretionary dollars committed on behalf of clients and the second column should show the amount of the non-discretionary dollars recommended for commitments. The table is intended to assist the ERS in understanding the size of an offeror's non-discretionary business overall and by general private equity sectors.

43. QUESTION: What are the dates of the meetings that the Private Equity Consultant would be expected to attend?

RESPONSE: See response No. 15.

44. QUESTION: When do these meetings typically occur (i.e. second Monday of each month)?

RESPONSE: See Response No. 15.

45. QUESTION: Will ERS maintain the current discretionary private equity advisor relationship in addition to hiring the Private Equity Consultant outlined in the RFP? Are we to assume, and therefore propose consulting fees accordingly, that ERS's intention is to maintain the relationship with the current discretionary private equity advisor which would invest \$150M per year and be responsible for monitoring the current private equity portfolio?

RESPONSE: The role and relationship with the discretionary private equity manager will be determined by the Board of Trustees in consultation with the private equity consultant, ERS staff, and the general consultant.

46. QUESTION: Has the private equity consultant hired in 2012 completed the recommendations for the overall program? Has the ERS Board made any decisions on the structure of the private equity program?

RESPONSE: The previous private equity consultant provided recommendations for the private equity program; however, the structure of the private equity program has not been finalized.

47. QUESTION: What is the current consulting fee for the private equity consultant? What is the current fee for the discretionary private equity advisor?

RESPONSE: The ERS does not currently have a non-discretionary private equity consultant. The fee for the discretionary private equity manager is:

Subject to a minimum annual fee of \$100,000:  
.75% on the initial \$100 million, not to exceed \$575,000  
.50% on the next \$50 million, not to exceed \$195,000  
.25% on the next \$50 million, not to exceed \$60,000  
.10% on the amount exceeding \$200 million

48. QUESTION: Is ERS looking for administrative support for the non-discretionary consultant's recommended private equity portfolio? Please describe the administrative support requirements.

RESPONSE: The ERS expects to develop additional administrative capacity for the private equity program; however, in the interim, the ERS may require the consultant to administer or recommend a solution to deal with calls and distributions, reporting, verification, in-kind distribution sales, etc.

49. QUESTION: Will the current discretionary private equity advisor continue to monitor the current portfolio, including attending those annual meetings?

RESPONSE: The role of the current private equity manager will be part of the discussion with the non-discretionary private equity consultant in developing the private equity program.

50. QUESTION: What will be the involvement, if any, of the Private Equity Consultant with the discretionary private equity advisor?

RESPONSE: This will be determined by the Board of Trustees based on advice from the private equity consultant, ERS staff, and the general consultant.

Very truly yours,

A handwritten signature in black ink, appearing to read "Wesley K. Machida". The signature is written in a cursive, flowing style.

Wesley K. Machida  
Administrator