

The following questions were submitted by prospective candidates for the Low Volatility Hedge Fund of Funds RFP. Questions categorized as “substantially similar” were consolidated in order to provide a single response.

1. Would you consider a ‘fund of one’ or a customized portfolio of hedge funds, or does it have to be a commingled FOF?
The System will not review managed accounts, fund-of-one, or other custom-based proposals as part of the RFP submission stage. The System will only review commingled fund proposals when developing a list of qualified finalists. This requirement will not preclude the System from ultimately pursuing a managed account, fund-of-one, or other custom structure with one of the finalist managers.
2. Why is a commingled vehicle the vehicle type of choice? Is it due to desire for a turnkey solution where minimal ongoing admin work is required, or is it based upon fee and/or operating cost economies of scale?
The System prefers a commingled vehicle at the RFP stage in order to efficiently evaluate candidates and taper responses down to a manageable list of qualified finalist candidates.
3. In the case of any commingled fund which is <\$100 million, what, if any, maximum percentage ownership of a single fund is the System willing to own post its investment?
The System does not have a maximum percentage ownership limitation.
4. Would the System be willing to invest \$25 million or more in an \$85 million commingled HFoF?
Yes.
5. Will the System consider managed account proposals from smaller asset managers?
The System does not have a size requirement for managers. However, as indicated in question #1, the System will not be reviewing managed accounts, fund-of-one, or other custom-based proposals as part of the RFP submission stage.
6. Does the System have a preferred or suggested contract, structure, or jurisdiction for a separately managed account?
No. The System will not be reviewing managed accounts, fund-of-one, or other custom-based proposals as part of the RFP submission stage.
7. Is it acceptable to submit data on flagship absolute HFoF portfolio related composites?
The System will only be reviewing commingled fund proposals to develop a list of qualified finalists.
8. What is the specific (primary) role the HFoF portfolio is intended to surrogate at OK?

The System's Investment Policy classifies this mandate as "other fixed income." As such, the role of this specific HFoF mandate is to represent a surrogate for fixed income in the System's portfolio with volatility similar to the Barclays US Aggregate index (3%-5%), a low sensitivity to rising interest rates, and a low correlation to the long only equity and fixed income markets.

9. Does the search at hand represent the hiring of a second HFoF manager, or is the search for a replacement to the existing? If it is for a second, are there metrics to be aware of that may help in creating a complement to the mandate now in place?

Due to the size of the allocation, it is the System's current desire to retain a single manager for this mandate. If a manager change is made, the current manager in the System's portfolio would be replaced.

10. Is there a specific benchmark for the HFoF fixed income surrogate portfolio?

This specific HFoF portfolio will be benchmarked against the HFRI FOF: Conservative Index for performance reporting and against the Barclays US Aggregate Index for an evaluation of the success of the strategy as a traditional bond portfolio surrogate.

11. Is there a minimum expected return hurdle over the benchmark?

There is no specific net of fee return hurdle over either benchmark: HFRI FOF: Conservative Index or the Barclays US Aggregate Index.

12. Is the goal of the HFoF portfolio to generate returns in excess of the current expected return on the System's traditional fixed income portfolio, while seeking to control draw down risk?

Yes.

13. What is the current expected total return and expected risk assumptions for the System's traditional fixed income portfolio (base case, worst case, best case)?

Base return assumption (single year): 4.35%

Worst Case (single year): -4.19%

Best Case (single year): 13.44%

- a. What is the portfolio's duration?

The duration the System's current domestic fixed income portfolio is approximately 5.1 years.

- b. Composition of underlying risks?

The System's current domestic fixed income portfolio consists of an intermediate and an aggregate bond index fund.

14. Will the System seek periodic cash redemptions/distributions from the HFoF fixed income surrogate portfolio? What cash will need to be sourced from the portfolio?

The System does not intend to make systematic redemptions from the portfolio to fund cash needs. However, the System would prefer an investment vehicle offering at least semi-annual liquidity.

15. Do you define 'low volatility' as annualized volatility in the range of approximately 3%-6%?

The System has been discussing volatility similar to the Barclays US Aggregate Index (3%-5%) for this mandate. As such, for the purposes of this RFP, an annualized volatility in the 3%-6% range would be viewed as low volatility.

16. Is there preference/bias for alpha sources associated with fixed income markets? Or is the System agnostic to these sources versus those from across the entirety of the hedge fund universe?

The System does not have an alpha source preference.

17. What is the maximum drawdown the System would be comfortable withstanding from the HFoF portfolio?

The System experienced a drawdown of nearly 15% in this HFoF allocation in 2008. This is a reasonable expectation of the maximum drawdown the System would be willing to accept for this specific mandate.

18. Is leverage allowed at both the FoF portfolio level and at the underlying hedge fund manager level? Is there a maximum leverage limit as a portfolio construction parameter?

Both would be acceptable. There is no specific leverage limit.

19. Does the System have a numerical target range for correlation which might more specifically define a portfolio construction parameter?

No specific target. The investment guideless sub-policy specifies a low correlation to the long only equity and fixed income markets for the "other fixed income" allocation.

20. Are there other parameters regarding: Transparency constraints? Beta? Liquidity constraints? Duration?

The System expects transparency to the hedge fund names and strategies contained in the portfolio. In regard to the other questions, there are no specific constraints, but a minimum of semi-annual liquidity is preferred.

21. What is the preferred form of binding for the hard copy of the RFP?

Three-ring binders are discouraged. Some form of spiral bound submission is preferred.

22. How many hard copies of the RFP are desired?

These details are contained within the RFP.

23. Can you please clarify whether the obligation to communicate to the Board pertinent changes taking place at the firm only pertains to personnel changes impacting the Investment Manager's employees that are involved with the System's mandate? Or

does it pertain to all personnel changes at the Investment Manager? [Re: p. 6, Section VI (B)]

The communication requirements relates to the employees involved in the System's specific mandate with the manager.

24. Could you please specify or provide the guidelines the System would want an investment manager to follow when voting proxies? [Re: p. 6, Section VI (C)]

There are currently no additional proxy voting guidelines other than those laid out in Section VI-C of the Investment Policy.

25. Does the System intend to include sales employees of the investment manager (e.g., in-house sales people) within the definition of 'placement agent'? [Re: p. 16-17, Section X]

Full-time sales employees of the investment manager would not be considered placement agents for the purposes of the Investment Policy.

26. Will the awarded mandate count as ERISA dollars (i.e. take up ERISA capacity of the fund)?

No.

27. For questions 23 and 24 of the RFP, are you looking for total AUM for HFoF for the firm or for the product under review? If the latter, would you like to see AUM leveraged at the HFoF level or at the underlying manager level?

Both in both questions.

28. If an existing fund investment is contemplated, would you prefer a domestic partnership or offshore fund?

Both vehicle structures would be considered.

29. Would you accept the AIMA formatted version of the DDQ?

No.

30. Would an indemnification provision be cause for a proposal to be rejected as non-responsive due to the requirements of the Oklahoma Constitution?

Investment Manager proposals will not be screened as "non-responsive" due to the requirement of the Oklahoma Constitution. However, mandates awarded by the System are contingent on a successfully negotiated contract with the System's Attorney.