5.0 TECHNICAL PROPOSAL

In this section, the bidder shall describe its approach and plans for accomplishing the work outlined in the Section 3.0 Scope of Work. The bidder must set forth its understanding of the requirements of this RFP and its ability to successfully complete the contract. This section of the proposal should at a minimum contain the information identified below, including bidder’s answers to the questions presented.

The questions below shall be included in the proposal followed by its corresponding answer. For convenience, the questions in this section are included as an MS Word attachment to this RFP.

5.1 OVERVIEW

Provide a summary statement of no more than three (3) pages stating why the bidder’s proposal is most able to provide the services listed herein to the DOI.

The summary should address the overall technical approach and plans to meet the requirements of the RFP in a narrative format. This narrative should demonstrate to the State that the bidder understands the objectives that the contract is intended to meet the nature of the required work and the level of effort necessary to successfully complete the contract. It should also demonstrate that the bidder’s general approach and plans to undertake and complete the contract are appropriate to the tasks and subtasks involved.

5.2 IMPLEMENTATION PLAN AND CONTRACT MANAGEMENT

5.2.1 Provide a time table for implementation of the contract beginning with the date of notification of contract award. At a minimum, this should address the timeframes for setup of daily communication; pre- and post- trade interfaces; reconciliations, set-up and interfaces; and the proposed time necessary to fully invest approximately $250 million.

5.2.2 Describe the bidder’s plan to communicate with the DOI including, but not limited to, communication with the DOI Contract Manager and Designated DOI Liaison(s), status meetings and status reports.

5.2.3 Describe the bidder’s plan for the use of subcontractor(s), if any, on this contract. Emphasis should be on how any subcontractor identified will be involved in the mobilization and implementation plan.

5.3 ORGANIZATION

5.3.1 Provide a brief history of the bidder and its operation with the most important milestones. Include the year formed, ownership structure, as well as any ownership changes within the past five years. Who were the founders of the bidder and are they still active? Are there any pending plans for ownership changes? Describe any joint ventures or affiliations, including any ownership the bidder or any entity under its control may hold in partnerships and/or other investment firms. Does the bidder conduct any business other than investment management and/or advisory services? State the nature of those other businesses.

5.3.2 Provide the bidder’s mission statement.

5.3.3 Identify the bidder’s total number of employees. Please provide a summary of the classifications within the firm and the totals for each classification (i.e. portfolio managers, research analysts, risk managers, client services, etc.).

5.3.4 Provide a brief general description of the bidder’s compensation agreements for professional staff, including bonuses, profit sharing, and equity ownership and the metrics used to determine incentive-based compensation.

5.3.5 Please describe any succession plans for the management of the bidder and for the continuity of leadership within the relevant investment teams. What plans, if any, are there if a key person were to become unavailable for an extended length of time?

5.3.6 Have any principals, partners or senior managers left the bidder within the last three years? If yes, list each person’s name, title, date of departure, and state the reason for each of these professionals leaving.

5.3.7 What are the current and short-term (next one to two years) priorities of the bidder (e.g. asset growth, increase/improvement in staffing, implementation of new strategies, etc.)?

5.4 PERSONNEL

5.4.1 Specify the individuals (up to ten) deemed by the bidder to be crucial to the proposed Asset Class’ success. Outline it by each proposed strategy so that the senior members are listed once or a minimum of times. Please include for each individual: Name, Years of Experience, Years with Firm, Years with the asset class or each proposed strategy (as appropriate), percent of time devoted to the asset class or each proposed strategy (as appropriate), and indicate if the individual is a shareholder (Yes or No).

5.4.2 For 2013 year-to-date and each of the previous four calendar years, provide the number of investment professionals directly involved with each proposed strategy gained and lost, including the roles of these individuals (i.e. portfolio manager, research analyst, etc.).

5.5 LOCATION

5.5.1 Identify the location of the main offices of the bidder.

5.5.2 Identify the location of the office(s) of the bidder from which services would be provided to the State of New Jersey.

5.6 ORGANIZATION CHARTS

5.6.1 Provide an assignment organization chart specific to the portfolio management team, with names showing management, supervisory, research and other key personnel within each asset class.

5.6.2 Provide a contract organization chart, with names showing management, supervisory, research and other key personnel to be assigned to the contract.

5.7 FINANCIAL CAPABILITY OF THE BIDDER

5.7.1 Please submit certified financial statements which include a balance sheet, income statement and statement of cash flow, and all applicable notes for the most recent calendar year or the bidder’s most recent fiscal year.

5.7.2 Has the audit opinion on the bidder’s financial statements been "unqualified" for the last three years? If not, please explain. Has the bidder had a change in auditors over the last three years? If so, explain why.

5.7.3 Please provide a bank reference.

5.7.4 A bidder may designate specific financial information as not subject to disclosure when the bidder has a good faith legal/factual basis for such assertion. A bidder may submit specific financial documents in a separate, sealed package clearly marked “Confidential-Financial Information” along with the proposal. The State reserves the right to make the determination to accept the assertion and shall so advise the bidder.

5.8 POTENTIAL PROBLEMS

Provide a summary of any and all problems that the bidder anticipates during the term of the contract. For each problem identified, the bidder should provide its proposed solution.

5.9 OPERATIONS, TRADING AND CONTROLS

5.9.1 Briefly describe the bidder’s administrative/back office operations and organizational structure.

5.9.2 List which global custodians with which the bidder currently interfaces.

5.9.3 Describe any electronic interfaces in place from order management system, accounting, back office etc.

5.9.4 Briefly describe the key systems and tools used for portfolio management, analysis, trading and accounting. Indicate if these systems are third party or internally developed.

5.9.5 Describe the bidder’s commitment to research and system enhancements.

5.9.6 Provide an overview of pricing procedures for securities, including sources and frequency of marks.

5.9.7 Does the bidder currently contract with outside pricing services? If so, provide a list of the firms and indicate the general types of securities each prices on the bidder’s behalf.

5.9.8 Does the bidder maintain a formal valuation committee or other entity that provides oversight for security/portfolio valuation?

5.9.9 Does the bidder execute its own foreign exchange for trades or use a third party service?

5.9.10 Provide an overview of the bidder’s operational risk monitoring and management practices.

5.9.11 Does the bidder participate in Service Organization Control (SOC) or equivalent reviews? If so, provide a copy of the bidder’s latest SOC report, and, if available, the independent auditor’s opinion on whether internal controls are adequate to achieve specified risk/SOC objectives and whether such controls were operating effectively at the time of audit. Have there been any significant changes since the date of the opinion?

5.9.12 Provide an overview of the bidder’s trade allocation protocols and procedures for controlling performance dispersion between accounts with substantially the same guidelines.

5.9.13 Provide an overview of the bidder’s business continuity and disaster recovery systems and plans.

5.9.14 Has bidder firm received a Wells Notice in the past year?

5.10 COMPLIANCE AND ETHICS

5.10.1 Provide an overview of the bidder’s pre- and post-trade investment guideline monitoring practices. Is a separate, independent group responsible for ensuring guideline compliance? What systems does the bidder have in place to ensure compliance with such guidelines?

5.10.2 Please state whether the bidder employs a compliance officer. If so, what are the duties of the compliance officer? To whom does the compliance officer report?

5.10.3 Submit a copy of the bidder’s ethics or standards of conduct policy. What steps are taken to ensure that employees comply with this policy?

5.10.4 What handbooks, manuals, written policies, written procedures or training are provided to new and current employees? How extensively does the bidder monitor and discipline employees?

5.10.5 Provide the bidder’s written policy on keeping the process for employees’ trading of their own securities independent from the processes for trading securities for clients. Discuss procedures used to monitor and control personal trading activities.

5.10.6 Discuss procedures used to prevent and detect rogue/unauthorized trading in client or firm accounts.

5.10.7 Has any member or representative of the bidder had contact with any Council member, DOI staff member or consultant during the last 12 months regarding this RFP? What has been the nature of these contacts?

5.11 LEGAL AND REGULATORY

5.11.1 Is the bidder registered as an Investment Advisor under the Investment Advisors Act of 1940? If so, please attach the bidder’s ADV Part II as Appendix F – ADV Part II. If not, please explain why.

5.11.2 Is the firm in compliance with the USA PATRIOT Act?

5.11.3 Over the last ten (10) years, has the bidder or any officer, director, partner, or principal been the subject of any past or pending non-routine investigation or inquiry by a federal or state agency or self-regulatory body regarding fiduciary responsibilities or other investment-related matters? If so, describe each instance and indicate if any directives, letters or opinions were issued concerning said inquiry.

5.11.4 Over the last ten (10) years, has the bidder or any officer, director, partner, or principal been involved in any past or pending civil or criminal litigation or legal proceeding related to the bidder’s business? If so, describe each instance.

5.11.5 Over the last ten (10) years, has the bidder or any officer, director, partner, or principal been convicted of, pled guilty to, or pled nolo contendere to a felony? If so, describe each instance.

5.11.6 Summarize the coverage for errors and omissions, professional liability, fiduciary insurance or fidelity bonds held by the bidder (i.e., amounts and respective carriers).

5.11.7 Over the last ten (10) years, has the bidder submitted a claim to its errors and omissions, professional liability, fiduciary insurance or fidelity bond carrier(s)? If so, describe each instance.

5.11.8 Has the bidder ever filed, voluntarily or involuntarily, for bankruptcy protection or otherwise been subject to the appointment of a receiver, trustee, or assignee for the benefit of creditors? If so, describe each instance.

5.12 INVESTMENT STRATEGY

For sections 5.12, 5.13, and 5.14 please provide one complete and separate set of responses and corresponding tables for each proposed Asset Class (HY and/or Muni). We expect that some bidders may manage multiple products or strategies within a given Asset Class, some of which may be closed to new investors, and these products may have modest variations in terms of portfolio concentration and characteristics. DOI also encourages bidders with a single strategy or product to bid. Our intent is to evaluate bidders on a holistic basis across multiple products within the Asset Class.

On Table 5.12.0 in the attached Appendix, include all products you currently manage for the proposed Asset Class.

5.12.1 BACKGROUND

5.12.1.1 On Table 5.12.1.1 in the attached Appendix, provide the requested calendar year end information for the bidder’s commingled and separate accounts for each proposed strategy.

5.12.1.2 On Table 5.12.1.2 in the attached Appendix, in each proposed strategy show the number of accounts gained or lost along with the corresponding asset values for each of the last five calendar years.

5.12.1.3 On Table 5.12.1.3 in the attached Appendix, in each proposed strategy, provide the number of accounts and assets under management (AUM) as of December 31, 2011, December 31, 2012 and December 31, 2013.

5.12.1.4 On Table 5.12.1.4 in the attached Appendix, what is the size of the bidder’s largest and median advised accounts in each proposed strategy?

5.12.1.5 On Table 5.12.1.5 in the attached Appendix, provide a listing of the top U.S. public fund clients by AUM (up to 3) in each proposed strategy. Include the size of the AUM at present and the length of engagement.

5.13 INVESTMENT PROCESS – ASSET CLASS

5.13.1 Describe the firm’s investment philosophy and process as well as any aspects unique to the proposed Asset Class (HY and/or Muni). The description should include detail on top-down (economic and thematic) versus bottom-up (security selection). The description should also include detail on duration; sector/industry selection; capital structure selection (Senior vs. Secured vs. Subordinated); ratings selection; and, individual security selection. The response should describe the firm’s research effort, portfolio construction guidelines, sell discipline, trading practices and portfolio turnover. Limit the response to this question to no more than 2 pages.

5.13.2 Are quantitative methods used as part of the investment process? If so, describe and indicate the relative contributions to performance of quantitative versus fundamental factors. Also, indicate the relative contribution to performance of duration, sector/industry, ratings, and security selection.

5.13.3 Illustrate the bidder’s investment process for the proposed Asset Class by identifying and describing the analysis behind two buys made during the past three months that are deemed to be most significant (one should address an adjustment to a position). Limit the discussion of each security purchase to one page.

5.13.4 Illustrate the bidder’s investment process for the proposed Asset Class by identifying and describing the analysis behind two recent sells (one of these sells should be an investment that did not work out) made in a portfolio. Limit the discussion of each security sale to one page.

5.13.5 Discuss unique methods utilized by the bidder in gathering or analyzing information. What is the bidder’s competitive advantage over other managers or advisers?

5.13.6 Describe the degree to which any strategy within the proposed Asset Class will invest in non-benchmark securities. Non-benchmark positions are allowed. Information on non-benchmark names provides color on investment strategy.

5.13.7 Describe the use of ETFs, closed-end funds, derivatives, and other vehicles to gain market exposure to certain countries or sectors. Describe how their use may affect proposed fees. Current permissible derivatives for the Pension Fund include FX forwards (N.J.A.C. 17:81), Futures (N.J.A.C. 17:16-82), Swaps (N.J.A.C. 17:16-83), Covered Call Options (N.J.A.C. 17:16-84) and Put Options (N.J.A.C. 17:16-85). Counterparties are limited to those with which DOI has directly executed the applicable agreements, including but not limited to Option Agreements, Futures Agreements, Margin Agreements, ISDAs and Dodd Frank Protocol Agreements. The Division does not currently have any executed ISDA agreements in place. A list of counterparties with which the DOI has executed other types of agreements will be provided upon contract award.

5.13.8 Table 5.13.0 requires the current and remaining capacity for each proposed strategy. How is this capacity determined? If this capacity is reached, would a “hard” (no new assets from any source) or “soft” (new assets allowed from existing clients or within certain vehicles) close be instituted?

5.13.9 What enhancements have been made to the investment process over the past five years (e.g. emphasized, deemphasized or changed purchase criteria)?

5.13.10 Is trading effectiveness of the bidder’s currency trading monitored? How is execution quality monitored?

5.14 RISK MANAGEMENT

5.14.1 List the main risks associated with the proposed Asset Class and describe how each is explicitly measured and managed at both the individual security and aggregate portfolio level.

5.14.2 Identify the person(s) or group primarily responsible for the risk management function.

5.14.3 Discuss how risk management both interacts with and maintains independence from the other aspects of the investment process.

5.14.4 List applicable portfolio constraints or guidelines (e.g., target exposures and allowable ranges, either benchmark-relative or absolute) and describe any other quantitative or qualitative risk controls. Include such things as maximum position sizes, as well as minimum or maximum rating weightings or sector/industry weightings. (Please note that we do not expect Contractor credit quality analysis to be beholden to the Rating agency buckets but do still find the information relevant for overall portfolio color).

5.14.5 Describe any hedging activities pursued in the proposed Asset Class, including what risks/exposures are typically hedged, instruments used and how hedging activities enhance risk-adjusted performance. Include a discussion regarding the bidder’s currency hedging approach and policies. Current permissible derivatives include for the Pension Fund include FX forwards (N.J.A.C. 17:81), Futures (N.J.A.C. 17:16-82), Swaps (N.J.A.C. 17:16-83), Covered Call Options (N.J.A.C. 17:16-84) and Put Options (N.J.A.C. 17:16-85). Counterparties are limited to those with which DOI has directly executed the applicable agreements, including but not limited to Option Agreements, Futures Agreements, Margin Agreements, ISDAs and Dodd Frank Protocol Agreements. The Division does not currently have any executed ISDA agreements in place. A list of counterparties with which the DOI has executed other types of agreements will be provided upon contract award.

5.15 INVESTMENT PROCESS – STRATEGY

For section 5.15, please provide one complete set of questions, answers, and corresponding tables for each proposed strategy i.e. if you are proposing multiple High Yield strategies, you should answer the questions for each one separately.

5.15.1 Describe the investment universe for each proposed strategy, including the types of securities utilized. Within this universe, are there any subsets that could be characterized as the primary focus?

5.15.2 On Table 5.15.2 in the attached Appendix, please provide the percentage of portfolio holdings in each duration bucket as of December 31, 2011, December 31, 2012 and December 31, 2013. Please perform the same exercise for ratings buckets (and specify what rating agency or blend of agencies is being used). Populate the table with percentages of the portfolio market value.

5.15.3 In Table 5.15.3 in the attached Appendix, please indicate what sectors are overweighted and underweighted in each proposed strategy as of December 31, 2011, December 31, 2012 and December 31, 2013. Provide relative percentage weightings for these sectors. For HY, it is preferred that the BICS Sectors are used (Basic Materials, Cash, Communications, Consumer Cyclical, Consumer Non-Cyclical, Diversified, Energy, Financial, Government, Industrial, Technology and Utilities). It is up to the bidder’s discretion if it would like to include Industry Groups as Sub-sectors. For Muni, the bidder should provide a Sector breakdown according to its preferred methodology.

5.15.4 Describe your investment philosophy for the product. What market anomaly or inefficiency are you trying to capture? Why do you believe this philosophy will be successful in the future? Please provide any evidence that supports this belief. How has this philosophy changed over time (if applicable)? Under what, if any, circumstance would you deviate from the disciplines associated with this philosophy?

5.15.5 If the bidder has experienced significant growth in AUM, how has this affected the liquidity profile of each proposed strategy? How has the bidder been able to mitigate any potential negative effects of this asset growth on the ability to generate strong excess returns going forward?

5.15.6 Discuss any periods in which each proposed strategy experienced exceptionally good/bad performance or high/low volatility. In essence, provide context and explanation for any periods that had significant variances from the benchmark.

5.15.7 Provide a representative portfolio as of December 31, 2013.

5.16 PERFORMANCE HISTORY

5.16.1 Provide each proposed strategy’s monthly composite returns for the last ten calendar years (or since inception, if that period is shorter) through December 31, 2013.

5.16.2 Please provide an annual performance attribution for each proposed strategy within the asset class for calendar years 2009 through 2013 (5 years). The attribution may include sector selection, yield curve positioning, duration and security selection decisions.

5.17 COMPOSITE QUALITY

5.17.1 Please indicate which of the following type(s) of portfolios are included in the composite ending December 31, 2013.

• Fully Discretionary Separate Account Portfolios Only

• Both Fully Discretionary and Restricted Portfolios

• Commingled Vehicles

• Other (Please Specify)

5.17.2 Is the composite for each proposed strategy calculated in compliance with CFA Institute GIPS? If so, what is the initial date of compliance? Has a third party been involved in certifying compliance with GIPS standards?

5.17.3 Has it been the bidder’s policy to include all fully discretionary portfolios in the composite since its inception? If not, please explain.

5.17.4 Are there currently any fully discretionary portfolios excluded from the composite? If so, provide an explanation for each instance.

5.17.5 Are terminated portfolios included in the composite? If not, please explain.

5.17.6 When are new portfolios included in the composite? Has this policy been consistently applied since inception of the composite?

5.17.7 How are portfolios in the composite weighted? Has this policy been consistently applied since inception of the composite?

5.17.8 Are cash returns mixed with asset returns? Has this policy been consistently applied since inception of the composite?

5.17.9 Are accounts ever switched from one composite to another? What determines the appropriateness of any such changes?

5.17.10 For the calendar year ended December 31, 2013, provide the number of accounts and assets for both the investment style of each proposed strategy and the composite itself.

5.17.11 Provide the performance dispersion (high, low and median returns) of the accounts in each of the composites for the past five calendar years ended December 31, 2013.

5.18 ADDITIONAL INFORMATION

5.18.1 Provide five references of clients who employ the bidder to manage or advise accounts in the proposed Asset Class. Include a contact name, phone number, inception date and the market value of the assets the bidder manages or advises for each reference. Please include longer term clients to the extent possible.

5.18.2 Please provide five references of institutional clients that have discontinued their use of the bidder’s services for the Asset Class. Include a contact name, dollars ($ mm) managed or advised at the time of termination, termination date, and the specific reason(s) for termination.

5.18.3 Please briefly describe your trading policy. How many bids (or offers) are typically received per trade? How is it determined which broker is used for a trade? Please include any information that would help to understand the trading processes, including a copy of your policies for approving and monitoring brokers.

5.18.4 Provide the names of the top 10 (ten) brokers used for trading and how these firms are evaluated for effectiveness.