Responses to questions for the Firemen's Annuity & Benefit Fund of Chicago ("Fund") Request for Proposal (RFP): Liquid Diversifying

(Please note that similar questions have been grouped together.)

Note: If there are exceptions to the minimum requirements, please disclose/explain in the relevant section of the Statement of Certification.

1. *Is there any flexibility on the requirement to provide the indemnification and standard of care set out in section 6 on the basis that similar terms are not provided to other investors in the investment vehicle?*
   Answer: Neither the negligence standard nor the indemnification standard suggested in the RFP is a statutory or regulatory requirement. However, both are consistent with the Fund's policies and procedures to ensure that it is taking steps to protect the assets of the Fund and to uphold the fiduciary standards required under the Illinois Pension Code (40 ILCS 5/1 *et seq*.) Thus, it would still be acceptable to propose a fund with a different negligence and indemnification standard than what is asked for in the RFP.
   Please note, however, the fiduciary standard is non-negotiable. The Fund is a statutorily created public pension fund that is administered pursuant to the Illinois Pension Code ("Pension Code"). The Pension Code requires that the Fund's investment contracts specifically state that the applicable investment adviser or manager with management authority over the Fund's assets be a "fiduciary" with respect to the Fund. That fiduciary standard has been reviewed by Illinois courts who have confirmed that the fiduciary standard required under the Pension Code is the prudent man standard reviewed in the ERISA context.

2. *On fees, is the 1.5% cap on management fees only? Is there flexibility for a lower management fee, plus incentive fee structures?*
   Would it be acceptable for the strategy to carry a performance fee in addition to a management fee?
   Are you open to a Management Fee + Incentive fee arrangement, or is it all in fee under 1.5%?
   Does a fund with performance fees but low management fees (under 1.5%) still qualify for this mandate?
   Are performance fees acceptable? If yes, how are performance fees to be taken into account in the 1.5% fee cap?
   Is charging a performance fee allowed next to charging a management fee?
   Do you accept strategies with a base and performance fee structure for this search?
   Is Chicago Firemen open to performance/incentive fees?
   Would you accept a strategy that has a management + performance fee structure?
   Answer: A management fee less than 1.5% plus a performance fee would be considered.

3. *Would a management fees + expenses level of 1.6% p.a. be acceptable?*
   Answer: The management fee should be less than 1.5%. Fund expenses will be reviewed, but a maximum level has not been determined at this point.

4. *Would a frontier debt strategy be eligible for participation?*

Could you clarify if all fixed income strategies are excluded or only absolute return fixed income?
Answer: A frontier debt strategy would not be eligible. All pure fixed income strategies are excluded.

5. *Are multiple submissions (for distinct strategies) from the same manager allowable?*
   Are we allowed to submit more than one strategy for this RFP?
   Answer: Yes, multiple submissions from the same manager would be accepted.

6. *Can you explain in more detail what is required for transparency of the strategy?*
   What is expected by the statement "100% transparency"?
   In section 1.1, bullet #6 says "100% Transparency" – could you please clarify what you mean by this?
   Answer: We require monthly risk reports and quarterly position level detail at minimum.

7. *Are multi-strategy funds (not FoF, but an integrated multi-strategy fund) acceptable? Is the end client ok with long volatility exposures (long convexity)? Are they open to systematic multi-asset trend?*
   Answer: A multi-strategy approach is acceptable. The stated volatility target is 15%. A systematic multi-asset trend approach is acceptable.

8. *With regards to the minimum $500M in strategy assets, are strategy assets inclusive of all feeders, single managed accounts, and single investor funds replicating the investment strategy?*
   Can you please advise whether the $500mm requirement is for just the proposed strategy, or aggregate across all strategies of similar nature that the adviser manages?
   The fifth requirement found under Section 2 – Minimum Requirements and Disclosures of the RFP states a minimum requirement of $500 million in the proposed strategy, and we wanted to see if the Fund and Callan have flexibility with this requirement if the proposed product is in range, and we can demonstrate the investment capabilities but fall short of the AUM requirement?
   Answer: The minimum requirement of "$500 million in strategy assets" is a requirement. No exceptions. Strategy assets may be summed across vehicles to achieve minimum requirement of "$500 million in strategy assets." Please explain calculation on the Statement of Certification.

9. *Could you please provide further clarification on the $500m strategy AuM threshold. Given the systematic nature of the investment process, total team managed AUM and track record of the overall factor platform, could this track record still be considered for this search?*
   Answer: Strategy assets may be summed, regardless of vehicle, to achieve minimum requirement of "$500 million in strategy assets." Please explain calculation on the Statement of Certification.

10. *Are you open to a Multi Manager Fund of Managed accounts, as distinct from a Hedge FOF?*
    Re: exclusion of Fund of Funds from your search: is this fee related?
    Answer: We are not seeking broad hedge fund of fund strategies nor managed account platforms. We will consider strategy specific fund of funds that meet the fee, transparency, and liquidity requirements of the RFP.

11. *Are you able to work with a limited partnership structure?*

Answer: We would consider a limited partnership structure. Regardless of the proposed product's structure, the adviser will still need to serve as a fiduciary to the Fund in accordance with the Illinois Pension Code.

12. *We wondered if a quantitative strategy investing in a combination of active currency and liquid government bonds through futures and forwards would meet the terms of the mandate?*
    Answer: No, a government bond/active currency strategy would not be eligible.

13. *What is meant by Qualified Women, Minority, or Disabled Owned Businesses? It is the term "qualified" that we are asking about.*
    Answer: The definition of "qualified diverse ownership" may be found in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2). This Act promotes and encourages the continuing economic development of minority-owned businesses, women-owned businesses, and businesses owned by persons with disabilities ("MWDBE"). "Minority-owned business," "Women-owned business" or "Business owned by a person with a disability" means a business that is at least 51% owned by one or more persons who are minorities/women/or persons with a disability.

14. *What are the preferred instruments for this RFP?*
    Answer: There are no preferred instruments for this RFP. It is expected that the investment will be made via a commingled vehicle.

15. *What are the preferred strategies for this RFP?*
    Answer: There are no preferred strategies. Excluded strategies are detailed in the RFP.

16. *"The Fund manager must act as a fiduciary." Does this mean that the proposed vehicle must have ERISA status?*
    Answer: No, a proposed vehicle does not need ERISA status. The fiduciary requirement would be resolved through a side letter. The Illinois Pension Code requires that the Fund's investment contracts specifically state the applicable investment adviser or manager with management authority over the Fund's assets be a "fiduciary" with respect to the Fund. That fiduciary standard is the prudent man standard.

17. *Is long-term trend-following considered a risk premia strategy and therefore be excluded?*
    Answer: Long-term trend-following is an acceptable strategy and would not be excluded.

18. *Will an enhanced defensive version of long-term trend-following be considered?*
    Answer: Yes, an enhanced defensive version of long-term trend-following would be considered.

19. *Section 1.1 states, "Proposed strategies should exhibit; monthly liquidity (minimum)". For a strategy consistently generating top of peer group risk adjusted returns, would you be willing to accept a 1-year lock up on a monthly or quarterly liquidity?*
    Answer: RFP requirements apply to all respondents regardless of historical performance. Monthly liquidity is required. No lock-ups will be considered.

20. *Are you open to accepting quarterly liquidity vehicles?*

Regarding liquidity is there any appetite to consider quarterly liquidity (no gates or side pockets)?
Answer: Monthly liquidity is an RFP requirement.

21. *Would [merger arbitrage strategy] be considered? Will there be specific constraints in the guidelines on allowable percentages of cash or fixed income?*
    Answer: No a merger arbitrage strategy would not be considered. Guidelines will be negotiated after selection of the manager; any constraints will be discussed and agreed upon.

22. *Will any benchmark be considered or is there a proposed benchmark in mind? We are seeing the current benchmark in the IPS for Liquid Diversifying as 90 Day T-Bills + 4%, but we currently use [a different benchmark].*
    Answer: The asset class benchmark will not change. We could measure the selected product against a different benchmark.

23. *Can you be more specific in your definition of "low correlation" to public equities? Is there a range of historical correlation (or R2) that is desirable?*
    Answer: The desired average equity beta is <=0.2

24. *What is the expectation for absolute and/or risk-adjusted returns?*
    Answer: The benchmark for the asset class is 90 Day T-Bills +4%. It is expected that the selected product will exceed this return, net of fees, over the long term.

25. *Would it be possible to postpone discussion and agreement of MFN terms to a further point in the process, should our initial submission move forward to the final rounds of the search?*
    Answer: Yes, discussion and agreement of MFN terms may be postponed until later in the process.

26. *The investment policy states, "a qualifying Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940 or exempt from registration as demonstrated to the satisfaction of the Board." Our company trades futures, forward contracts and swaps, not securities, and is not registered with the SEC but registered as a CTA with the CFTC/NFA and approved as a swap firm by the NFA. Would this qualify as an exemption from the required SEC registration?*
    Answer: No. FABF is subject to the provisions of Chapter 40, Act 5, Articles 1, 1A and Article 6 of the Illinois Compiled Statutes. Consistent with Sec. 1-101.4, an Investment Adviser must be one of the following: i) registered as an investment adviser under the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.); (ii) registered as an investment adviser under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisers Act of 1940; or (iv) an insurance company authorized to transact business in this State. Any other registrations would not be accepted.

27. *Do you have any explicit parameters for exclusion within the RFP that you are able to share upfront which would help us identify suitability of application? (i.e., volatility cap, fee parameters, max drawdown, Sharpe requirement, etc.)*
    Answer: There are no other explicit parameters for exclusion other than those specified in the RFP.

28. *Please provide a template for the following reporting items: MINORITY BROKERAGE TEMPLATE in format specified by the Fund; COMMISSION DETAILS (e.g., soft dollar, CSA, etc.), including brokers, dollar amounts and detail listings of services/products received with commission dollars beyond execution; TRANSACTION COST ANALYSIS: Manager's transaction cost analysis, including a copy of any report or service a manager utilizes to measure the quality of its trade execution. If a template is not available, please provide a list of required metrics.*
    The documentation states: "It is the goal of the Fund to have at least 12% of its fixed income transactional amounts and at least 22% of its equity related commissions be placed with MWDBE broker/dealers. Program success will be measured in aggregate." Is there a similar requirement for derivative transactions?
    Can you please provide a list of approved MWDBE broker/dealers?
    Answer:
    - The Minority Brokerage template is an excel spreadsheet submitted to the Fund on a quarterly basis detailing (1) for equities: executing broker, total shares traded, principal, total commission, Average commission per share, utilization reason (ie MWDBE, execution, soft, CSA, etc); (2) for bonds: executing broker, total par value traded, utilization reason. There is no specified format for the Commission Details or Transaction Cost Analysis reports.
    - There is no minority brokerage execution requirement on derivative transactions.
    - The Fund does not maintain a list of approved MWDBE broker/dealers. Any broker/dealer with "qualified diverse ownership" as defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/2) could be selected to execute trades. Ultimately, the Fund's investment managers select their trading partners.

    Please note that MWDBE brokerage targets do not apply to commingled fund investments.