

BOARD RESPONSE TO WRITTEN REQUESTS FOR CLARIFICATION

RELATING TO:

INVITATION TO NEGOTIATE
FOR

FIXED INCOME INVESTMENT MANAGEMENT SERVICES DESIGNED TO OUTPERFORM THE
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX

#18-01

June 13, 2018

Florida Prepaid College Board
1801 Hermitage Blvd., Suite 210
Tallahassee, Florida 32308
(850) 488-8514

Memorandum

To: Prospective Respondents, ITN #18-01

From: Florida Prepaid College Board

Date: June 13, 2018

Subject: Board Response to Written Requests for Clarification relating to ITN #18-01 Fixed Income Investment Management Services designed to outperform the Bloomberg Barclay US Aggregate Bond Index.

Any questions concerning conditions and specifications of this ITN must be addressed in the form of written questions submitted by Respondents pursuant to the schedule in Section 2.01.

Any questions received after June 11, 2018, 12:00 PM (ET) were not accepted.

Company Name: GW&K Investment Management

Question	ITN Section	ITN Page	Question/Comment
1.	4	5	Should the electronic and original copies of the Response sent to the Board include both parts 1 (Callan Manager Questionnaire) and 2 (Written Response Packet)?
Answer: The Written Response must be delivered to the Board. The Callan Manger Questionnaire must be delivered to Callan Associates through the link provided in the ITN.			

Company Name: DoubleLine Capital LP

Question	ITN Section	ITN Page	Question/Comment
1.	N/A	N/A	Is this mandate exclusively for a Core Bond manager, or will a Core Plus manager be considered as well (Core plus High Yield Debt & Emerging Market Debt)?
Answer: This mandate is for a Core Bond manager only.			

Company Name: Garcia Hamilton & Associates, L.P.

Question	ITN Section	ITN Page	Question/Comment
1.	4.03	5	What will be the delivery location for the electronic and (un)bound copies?
Answer: 1801 Hermitage Blvd., Suite 210 Tallahassee, FL 32308			

Company Name: MacKay Shields LLC

Question	ITN Section	ITN Page	Question/Comment
1.	Appendix A	9	In section 10. Consideration – the paragraph refers to an Exhibit “D” which we did not find. Please provide Exhibit D.

Answer:

The Exhibits to the Contract are created as a result of the negotiation process and final Contract development. Exhibit D will incorporate the final pricing schedule of the selected Respondent.

Company Name: Income Research & Management

Question	ITN Section	ITN Page	Question/Comment
1.	Tab 6: Audit and Financial Information	9	Based on the request stating that “Respondent shall provide complete copies of each audited financial statements electronically ...” Should Respondents provide copies of each financial statement within the hard copy print outs of submissions?

Answer:

No. The audited financial statements are required only to be submitted electronically.

Company Name: The TCW Group, Inc.

Question	ITN Section	ITN Page	Question/Comment
1.	Appendix A - IMA	2	TCW would like to submit items No. 1-7 below for discussion and we may have additional questions or comments on the IMA should we be selected for this mandate. 1.C. Representations and Warranties: It is a corporation <u>limited liability company</u> duly organized, validly existing, and in good standing under the laws of the United States and the State of <u>Delaware</u> and has the power and authority to carry on its business as now being conducted and has the power and authority to execute, deliver, and perform this Agreement; and

Answer:

Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by

the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.			
2.	Appendix A - IMA	9	9.C. Insurance: Upon request of the Board, the Manager will provide to the Board evidence that the premiums therefor have been paid. <u>Certificates of Insurance as evidence that the coverage is in effect.</u>
<p>Answer:</p> <p>Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.</p>			
3.	Appendix A - IMA	9-10	10.B. Consideration: If the Manager <u>in the future</u> enters <u>into</u> any agreement or contract with any other similar customer by which the Manager agrees to provide equivalent services <u>for an account utilizing similar investment objectives and guidelines for an account of similar size,</u> for a lower fee or price, or additional services for a comparable fee or price, the Manager will provide written notice thereof to the Board within thirty (30) days of the date the Manager enters such agreement or contract with another customer and will agree to amend the Agreement, resulting from the ITN to provide the equivalent fee or price or additional service to the Board. <u>For purposes of this section, subadvisory or multi-manager accounts, and accounts with performance-based fee schedules are excluded.</u>
<p>Answer:</p> <p>Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.</p>			
4.	Appendix A - IMA	11-12	15.A. and 15.B. Indemnifications: A. The Manager will act as an independent contractor and not as an employee of the Board in the performance of the tasks and duties which are the subject of this contract. The Manager shall be liable, and agrees to be liable for, and shall indemnify, defend, and hold the Board harmless from all claims, suits, judgments, or damages (including litigation costs and reasonable attorney's fees) arising resulting from the Manager's fraud, negligence or misconduct, or any subcontractor's fraud, negligence or misconduct, <u>of in performing</u> the tasks and duties which are the subject of this Agreement, including, but not limited to:

			<p>(i) Obtaining consent of any nature whatsoever;</p> <p>(ii) Protecting the Board against claims for the unauthorized use of name or likeness of any person, libel, slander, defamation, disparagement, piracy, plagiarism, unfair competition, idea misappropriation, infringement of copyright title, patent, slogan or other property rights and any invasion of the right of privacy. "Misconduct" shall mean any violation of <u>Federal securities laws and, to the extent the Manager is informed by the Board of the same, any</u> Florida law, Board rules, or directives, state or federal securities laws and regulations implementing same, or the Board's Comprehensive Investment Plan; and</p> <p>(iii) Actions arising under Chapter 119, F.S.</p> <p>B. The Manager will notify the Board in writing immediately of any claim or suit against the Manager arising from or related to the Manager's tasks and duties which are the subject of this Agreement. The Manager shall not, <u>on behalf of the Board or the State</u> settle, compromise, mediate, agree to dismiss, or voluntarily agree to the entry of any judgment, temporary injunction or permanent injunction, in any claim or suit against the Manager arising from or related to the Manager's tasks and duties which are the subject of this contract without the prior written authorization of the Board. Nothing in this Agreement authorizes the Manager to waive the Board's immunity from suit under the Eleventh Amendment to the United States Constitution.</p>
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Answer:
Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.

5.	Appendix A - IMA	13	<p>16. Imprudent Investing</p> <p>If moneys in the Florida Prepaid College Trust Fund fail to offset the Board's obligations to qualified beneficiaries of the Stanley G. Tate Florida Prepaid College Program as a result of imprudent investing by the Manager, the Manager agrees to be liable for the Board's obligations. Investments made in accordance with the Comprehensive Investment Plan adopted by the Board will not be considered imprudent. The agreement and obligation of the Manager under this provision shall survive the termination of this Agreement. <u>For purposes</u></p>
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			<u>of this section, Manager's liability for losses incurred by the Florida Prepaid College Trust Fund is solely limited to those losses caused by the Manger's imprudent investing, and not to losses due to other factors, such as underfunding.</u>
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Answer:
 Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.

6.	Appendix A - IMA	13	17. Personnel The Board may interview the personnel assigned by the Manager to perform the services required under this Agreement. The Board may require the replacement of any personnel of the Manager believed to be unable to carry out the responsibilities of the contract at any time. The Manager shall warrant that personnel assigned to <u>be principally responsible for performing the</u> tasks under the Agreement will not be replaced or reassigned except as is reasonably necessary.
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Answer:
 Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.

7.	Appendix A - IMA	N/A	23.C. Public Access to Records and Confidentiality: As it relates to the following statement within this above mentioned section, "Manager agrees to abide by all applicable Board Information Technology Security procedures and policies Board Information Technology Security procedures and policies," Can a copy of the Board's IT Security Procedures and Policies be provided for review purposes given contract negotiations takes place separate from the Written Request for Clarification?
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Answer:
 A copy of the Board's IT Security Procedures and Policies may be provided for review purposes during contract negotiations.

Company Name: J.P. Morgan Asset Management

Question	ITN Section	ITN Page	Question/Comment
1.	Liability Segment Guidelines Attachment D	15	Allocation section – The portfolio is expected to be invested in securities within the benchmark...out-of-benchmark authorized investments limited to 20% of the portfolio.

	- Allocation Section		How is out-of-benchmark defined? i.e. sector, sub-sector, issuer, or CUSIP level?
Answer: The Liability Segment of the CIP does not apply to this mandate.			
2.	Liability Segment Guidelines Attachment D - Residential Mortgage Backed Securities	15	Residential Mortgage Backed Securities – Maximum allocation of 20% of the portfolio: i. Is there flexibility to increase the max allocation? ii. Screening out sub-prime and Alt-A within the agency MBS space is not possible. Were these two bullets meant to be positioned under the Privately Issued Mortgage Backed securities section?
Answer: The Liability Segment of the CIP does not apply to this mandate.			
3.	Liability Segment Guidelines Attachment D - Other Collateralized Securities	15	Is there flexibility to lower the rating for Asset-backed and Commercial Mortgage Backed Securities to BBB?
Answer: The Liability Segment of the CIP does not apply to this mandate.			
4.	Liability Segment Guidelines Attachment D -Other Restrictions	15	Active Management i. Tracking Error shall be less than 50bps. Is this flexible? ii. Aggregate Corporate debt, ABS, and MBS shall not exceed 50% of the portfolio. This restriction is going to add tracking error the portfolio and limit alpha opportunity, as you will be forced to a heavily o/w in treasuries. Is there flexibility in moving this higher?
Answer: The Liability Segment of the CIP does not apply to this mandate.			
5.	Actuarial Reserve Attachment D - Allocation Section	20	Allocation section – The portfolio is expected to be invested in securities within the benchmark...out-of-benchmark authorized investments limited to 20% of the portfolio. i. How is out-of-benchmark defined? i.e. sector, sub-sector, issuer, or CUSIP level?
Answer: CUSIP level. Please include any recommendations or concerns in your Response.			

6.	Actuarial Reserve Attachment D - Residential Mortgage Backed Securities	20	Residential Mortgage Backed Securities – Maximum allocation of 20% of the portfolio i. Is there flexibility to increase the max allocation? ii. Screening out sub-prime and Alt-A within the agency MBS space is not possible. Were these two bullets meant to be positioned under the Privately Issued Mortgage Backed securities section?
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Answer:
i. Yes. Please include any recommendations or concerns in your Response.
ii. No. Please include any recommendations or concerns in your Response.

Please see revised Appendix D.

7.	Actuarial Reserve Attachment D - Other Collateralized Securities	20	Other Collateralized Securities i. Is there flexibility to lower the rating for Asset-backed and Commercial Mortgage Backed Securities to BBB?
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Answer:
Yes. Please include any recommendations or concerns in your Response.

8.	Description of Services – Contract (3.02)	4	Is the contract negotiable?
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Answer:
Respondents must accept the Contract provided in Appendix A. However, the Board reserves the right to modify this Contract pursuant to the negotiations. Please include your proposed modifications to the Contract in your Response to the ITN for consideration and evaluation by the Board. Additional information may be added as an Appendix to your Response. See Section 4.02.

Company Name: MFS Investment Management

Question	ITN Section	ITN Page	Question/Comment
1.	N/A	N/A	One of the minimum qualifications asks managers to affirm that their effective annual fee for \$500 million is 15 bps or less. Does this imply that the minimum amount awarded to each hired manager will be at least \$500 million? If not, is there a minimum amount that will be awarded to each hired manager?

Answer:
The Board anticipates that the selected Respondent(s) will be assigned \$220 million in the Savings Program and, if approved by the Board, up to \$ 1 billion in the Prepaid program. However, the Board does not guarantee any minimum or maximum market value at any time or in any year.