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**STATE OF HAWAII**  
**EMPLOYEES' RETIREMENT SYSTEM**

RFP  
ADDENDUM NO. 2  
To  
Request for Proposals  
For Real Estate Investment Consultant  
Employees' Retirement System (ERS)  
State of Hawaii

RFP 2017-01  
Dated  
March 16, 2017

OFFERORS:

I. Amendments to Request for Proposals

Significant dates are modified as follows:

Proposals due: March 23, 2017 at 4:30 pm, HST

II. The following are clarifications to the Excel spreadsheet and RFP.

1. Question 2 in the Excel spreadsheet refers to the Offeror's AUM. Note new dates in the table.
2. The Market Value, Question 3, row 85 in the Excel spreadsheet, shall be reported in millions.
3. 5% not 5.15% is the return assumption for Question 5 at row 188 in the Excel spreadsheet. Change noted in the spreadsheet.
4. For each response on the Excel file that includes information that you claim as confidential, please include a statement at the beginning of your response that the response to the question includes trade secrets



Employees' Retirement System  
of the State of Hawaii

or other proprietary data/information that the offeror wishes to remain confidential.

III. The following replaces, Questions, page 23, of the RFP:

### QUESTIONS

*Your answers must be numbered consecutively as listed below, including the restatement of the question followed by your firm's response.*

#### **Organization**

1. Provide your company's name and address, and the primary RFP contact's name, phone number, fax number, and e-mail address. Provide the address of the office that will service this account. Provide the legal entity name that will be represented on the contract should your organization be awarded this consulting mandate?
2. Give a brief history of your firm's involvement in the real estate consulting business and any related businesses to consider such as real assets, for example, including the year of organization, current ownership structure, affiliations and any recent changes. Are ownership changes planned or anticipated at this time?
3. How many years has the firm provided real estate consulting services to public pension plans?  
How many years full discretionary? How many years non-discretionary?
4. 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? What percentage of your total firm revenues come from outside your real estate consulting services?
5. Describe your current ownership structure including the names and titles of owners (or parent organization) by percentage.
6. List the total number of professionals assigned to providing professional-level real estate consulting services within your organization and how many of those professionals who would have direct responsibility for the ERS account. Please define your definition of "professional" in terms of functions and responsibilities.
7. Describe your present and future business plan/strategy as it relates to ownership structure and real estate consulting services.
8. Does your firm also provide real estate consulting services to real estate managers? How do you handle potential conflicts?

9. Does your firm or affiliates provide investment management, brokerage or other services for clients? What procedures are in place that would mitigate or eliminate potential conflicts of interest?
10. Does your firm act as a fiduciary when serving as a pension fund real estate investment consultant? Please elaborate if your firm does not and why.
11. Describe any financial relationships that exist with other organizations such as brokerage firms, insurance companies, commercial banks, investment banking firms, investment management firms, etc.
12. Please disclose the nature of any relationship you now have or have had in the past five years with any ERS Board member, consultant, or staff.
13. Do you subcontract or outsource any parts of your investment consulting business? If yes, please describe in detail which parts are performed externally and the reason for doing so. Please provide the name(s) of the providers, their office location, how long they have been in business, and the qualifications of the specific people who will be working on our account.

**Clients**

1. Provide a list of all clients, noting the institutional clients with assets of more than \$1 billion using the following format:

\*Place “x” mark if applicable

Client's name	Public pension plan*	Retainer Based*	Transaction Based*	Total Plan Assets greater than \$1 billion (state amt. in \$mm)	Funded % of Total Plan Assets Allocated to Real Estate	Target % of Total Plan Assets to Real Estate

2. Indicate the total amount of assets under your pension fund real estate consulting management at the end of June 30, 2011 to June 30, 2016. Separate the amount as follows using the format provided:

(State in \$million as of June 30)

Period	Direct	Commingled	Co-Investments	Other (specify)	Other (specify)	Total
2016						
2015						
2014						

2013						
2012						
2011						

3. For clients over \$1 billion, please list clients' investments by using the following format (please list all public pension fund clients first):

Clients name	Property Type	Geographic location	Strategy Type (core, enhanced, etc.)	% of Allocation to Real Estate	Market Value (state in \$mm)

4. List at least three client's (public pension funds preferred) that your firm provides full service real estate consulting and briefly describe the services provided. Indicate whether full discretionary or non-discretionary.
5. References: (Please get advanced permission from each reference provided).

List three (3) public pension funds (or three (3) clients if public pension funds are unavailable) with assets equal to or over \$5 billion for whom you have provided primary real estate consulting services.

For each reference listed include client name, address, telephone number, email address and whether they are a full-retainer client and whether they are discretionary or non-discretionary with name of contact person.

\*Place "x" mark if applicable.

Client's Name, address, contact person and phone no. email address	Number of Managers monitored	Market value	Commingled (C) or Direct (D)	Equity (E) or Debt(D)	Office*	Industrial*	Multi-family*	Retail*	REITS*	Specialized Non-traditional*	Other*

6. Provide a list of pension fund clients to whom your firm has provided specific project consulting (no long-term retainer) in the last three years and briefly describe the type of assignment (e.g. investment policy, staffing study, market study, specialized/non-traditional real estate investments, etc.) using the format below:

Name of Non-retainer client	Year service provided	Type of Assignment

7. Provide a list of clients that have terminated your services within the last five (5) years, the dollar amount of assets under management at time of termination, and the reasons for termination of each.
8. Describe your plans for managing the future growth of your firm in terms of staff, maximum assets, number of clients, etc.

### **Personnel**

1. Provide an organizational chart of your real estate consulting unit showing functions, positions names and titles. (Identify as **Appendix A**)
2. Provide biographies of your key professional personnel. (Identify as **Appendix B.**)
3. Briefly describe which personnel share an equity stake in the organization, and describe any other provided incentives to retain your most talented staff.
4. List the name and location of primary individual(s) the names and locations of personnel who directly support the primary individual(s) and backup personnel who would be responsible for our account and provide brief biographies including titles, functions, academic credentials, relevant experience and number of years in their current position on job functions and in real estate consulting, how many other accounts for which they currently have responsibility, and a profile of their current clients. Identify and explain the role of back-up personnel.
5. Explain how junior level staff are trained or developed to assume more senior level positions in your firm and cite the criteria used to promote them.
6. Has any officer or principal of your organization been involved in litigation relating to consulting activities within your firm or prior to joining your firm (if known)? If so, provide a brief explanation and indicate its current status. Has your firm been under any investigation by a regulatory agency or other government agency? Please explain the status and outcome.
7. Describe how many support staff including (but not limited to) research analysts and other technical personnel that the primary individual has access to in servicing the ERS account.
8. What policies are in effect to control the workload as it relates to the number of clients serviced by each consultant? Is there a limit on the number of accounts that a consultant may handle?
9. Describe the turnover in key professional personnel in each of the last five (5) years. Indicate the number of people gained/lost in the following categories:

- a) client contact consultants
- b) key technical personnel

Name/Position	Joined/Left the Firm	Years with Firm	Replacement	Reason for leaving

**Services**

1. List all standard services provided in a typical real estate full service consulting and performance monitoring relationship. List the special services that you have provided to meet other needs of your clients. Which of those services are in addition (or not mentioned) in the Scope of Services described in this RFP.
2. Briefly summarize your philosophy relating to the consultant's relationship with Boards; Investment or Real Estate Committees, Staff; and real estate managers.
3. How do you effectively communicate with your clients? What should a client expect from you in terms of client service? What is your availability to meet with the Investment Committee and staff for investment policy review, manager searches, review of individually managed account-related matters, and other issues that may arise? Do you have a website portal? Describe the kinds of client information that is available on-line.
4. Do you attend annual manager or partnership meetings on behalf of your clients? If not, will you participate at a specific client's request and will there be an additional charge for this service?
5. Describe the services of your organization that distinguish your firm from other real estate investment consultants, and discuss how your firm's strengths would add value to our Fund.
6. Describe your firm's capabilities regarding coverage of real asset strategies, such as infrastructure, agricultural land, commodities, timber, and other related strategies. Are you able to provide such coverage as part of a consulting contract? Please see the Fees section below for instructions regarding fees for real asset services.
7. Are there any additional services or distinguishing features or services that your firm can offer (e.g., proprietary database and analytics; risk management reporting or consulting).

## **Database**

1. Outline the overall capabilities of your database system.
2. How many of the following are tracked on your performance database?
  - a) managers/advisors
  - b) direct investments
  - c) commingled funds
  - d) specialized, non-traditional funds
3. Discuss the number of individuals assigned to monitoring investment products and frequency of both their internal and external manager visits.
4. How frequently is the real estate investment manager information updated? What are the sources of data and how do you ensure that your data is an unbiased and fair representation of the real estate investment manager universe? How is the investment strategy (core, enhanced, high return, etc.) determined for an investment manager or product? (i.e., what is the specific criteria used.)
5. What level of detail is included in your database to be used for screening (e.g., assets under management, client information, staffing information, research capabilities, ownership fees, organizational changes, etc.)? How is this information verified?
6. How is the manager categorized into a specific style? How do you monitor consistency of style? How often? Do you monitor manager compliance with policy objectives and guidelines?
7. How many managers have you met with annually in each of the last three years in your offices? At their offices?
8. Do you receive a fee or other consideration from managers who wish to be maintained on your database? Do you sell investment manager database information? Do you receive compensation directly or indirectly from the sale of this information? What percentage of your revenue do you derive from sales to or subscriptions from money managers on your database? How do you prevent conflicts of interest with the current investment managers of your clients?

**Manager Search**

1. Describe your experience and capabilities in conducting searches for real estate investment manager. How many searches were conducted for clients between \$1 billion-\$15 billion in total plan assets in the past five years? How many different managers were recommended by you in calendar years 2014 and 2015 for each of the four major property types? (office, industrial, retail, multifamily, public REITS, specialty types).
2. Briefly describe the due diligence process on managers during searches. How does on-site due diligence fit into the search process?



**Investment Policy/Asset Allocation**

1. Describe your pension fund experience (preferably public fund) and approach in developing investment policy and objectives for a diversified pension fund especially within the context of a comprehensive strategic plan. Comment on your process for analyzing a client's portfolio structure and for recommending modifications. Describe the manner in which you assist the Board and the Investment Committee in monitoring investment policy, strategy and asset mix.
2. Please provide an example of an investment policy and an example of current long term strategy by strategy type and property type (office, residential, industrial, public REITS) goals and return objectives. Briefly address in the policy/strategy any economic/market assumptions and how the strategy achieves its objectives given current and future market volatility changes in interest rates, changes in inflation, and supply and demand constraints.
3. What does your firm consider to be crucial issues regarding the development of an investment policy?
4. For the ERS:
  - a) What is the most appropriate way to categorize real estate investments to help the client best understand the levels of risk being assumed? What is the real return assumptions associated with each category type and how were those real return assumptions determined?
  - b) What is your outlook on inflation and how are near and long term changes in those rates influencing real estate Policy and the kinds of investments you recommend to your clients? What are the specific investment strategies that you believe will help public pension plan clients achieve high levels of risk-adjusted returns. (The ERS expects its real estate program to generate a minimum total real rate of return of 5.0% using a Time-Weighted rate of return calculation.) Do you believe this is an appropriate real return expectation for the next five to ten years? If not, why not?
  - c) How would you help the client understand the level of leverage being used across the real estate portfolio? What kind of reports or presentations do you currently provide that reflect leverage?
  - d) Describe any comprehensive *program-level* risk management tools or systems you use to understand and evaluate various kinds of risks associated with a client's real estate program.

### **Performance Measurement**

1. What categories are tracked in your performance measurement system? Provide the specific characteristics unique to each category, as well as concise definitions. Is the property level information used for both direct and commingled fund analysis?
2. How many years of useable performance data are on your database?
3. Describe the sources of information (other than databases and managers) you use for providing performance measurement data. Do you certify that reporting is in compliance with CFA Institute GIPS ® reporting standards?
4. Describe your methodology in computing individual manager returns. Please include the actual formula utilized, the frequency of calculation, the treatment of cash flow, and the treatment of fees.
5. What benchmark(s) do you recommend for evaluating the performance of a public pension plan real estate program? What are your views on benchmarks that do not include leverage versus those that may include leverage?
6. How do you verify and reconcile the managers' returns?
7. How are total fund numbers calculated?
8. Describe the flexibility available to customize reports.
9. Briefly describe how a new client would transition to your services and cite any experience you have with transitions. Do you backload investment performance data?
10. Describe the methods and resources used for customizing and/or tracking benchmarks used to analyze and evaluate your clients' portfolio performance.
11. Please provide as **Appendix C** a sample of your firm's performance and other standard reports. Also provide a sample of a recent quarterly performance report for an Individually Managed Account (IMA) manager in **Appendix C**. How many days are quarterly reports available after the end of each quarter? Do your quarterly reports include an executive summary?
12. Describe how your organization identifies problems with investment advisor activities and performance. Include the process by which steps are taken to rectify the problems.

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13. Describe steps you have taken on behalf of your clients who have investments in poorly performing:
  - a) commingled funds,
  - b) separate accounts or direct investments.

**Deal Review**

1. What is your firm's experience in:
  - a) preparing property due diligence reviews for new acquisitions and property reviews for existing investments?
  - b) managing an appraisal process for a client and in preparing review appraisal reports?

Provide an example, if available, of a sample outline for a due diligence review and an example of a review of an appraisal report in **Appendix D**.

2. Describe your organization's experience in working with institutional owners, advisors, and/or lenders on workout/problem properties. Provide examples of where your firm has added value to the process of workout consulting.
3. What policies are in place to determine allocation of real estate investments among several of your clients? Please attach this policy (if available) in **Appendix E**.
4. Please address your experience as a consultant in reviewing and recommending real estate deals located in (1) Europe, (2) Far East/Asia/Australia, (3) Latin America, (4) Middle East, (5) Other regions, and what recommendation you have for investment in these regions over the next five years.
5. Please address your experience in evaluating and recommending timber, infrastructure, and other alternative forms of real estate. What percentage range of its total real estate allocation would you recommend for a public pension like the Hawaii ERS? Would such an allocation grow larger over time, by how much, and why?

**Assets Under Management**

1. Provide electronic versions of Tables 9a and 9b. Please footnote the table to provide information if the real estate assets were managed in a fiduciary capacity by the consultant or whether managed by client's existing real estate managers or client's staff.

**Table 9a – AUM for all accounts – June 30, 2016**

	\$(000,000)	% of Total Firm's AUM	No. of Clients
RE – US Public Pension			
RE – Endowments and Family Offices			
RE – Corporate			
RE – Other Clients			
Total RE Assets – Separate Accounts			
Total RE Assets – Fund of Funds			
Total US Public Pension Assets			
Total Firm AUM			
Total Firm AUM			

**Table 9b – AUM for non-discretionary accounts – June 30, 2016**

	\$(000,000)	% of Total Firm's AUM	No. of Clients
RE – US Public Pension			
RE – Endowments and Family Offices			
RE – Corporate			
RE – Other Clients			
Total RE Asset – Separate Accounts			
Total RE Assets – Partnership Funds (LP) Accounts			
Total RE Assets – Fund of Funds			
Total Firm AUM			

### **Philosophy and Approach**

1. Please describe your firm's current consulting philosophy and approach to non-discretionary real estate consulting services. What is your philosophy on or approach to separate accounts versus commingled funds/REITS? When is one more viable than the other?
2. What is your assessment of HIERS use of separate account managers (2) versus commingled funds (21)? What are the trends in this area, if any?
3. Does your firm favor any one property type over others (e.g., office, industrial, retail, residential, hotel, or specialty real assets?) Please elaborate on the pros and cons of these various property types and how you might position HIERS's RE portfolio to gain optimal diversification.
4. How does your firm ensure that it is obtaining broad coverage of the highest performing managers?
5. What consideration does liquidity play in structuring a client's portfolio?

### **Firm Capabilities and Investment Process**

1. Indicate the types of investment strategies and vehicles that the firm has experience with for US Public fund clients and describe the optimal situation for using one vehicle type versus another:
  - a) Separate account;
  - b) Limited partnership interests/commingled funds;
  - c) REITS;
  - d) LLC
  - e) Co-investments;
  - f) Other.
2. Briefly explain the firm's overall evaluation of client's current and prospective real estate managers. How does a separate account get evaluated differently than a fund investment?
3. How would your firm manage and provide oversight for the entire real estate program (separate, commingled accounts, REITS)? How would you coordinate and develop a comprehensive real estate strategy?
4. How would your firm source and develop new relationships with fund managers prior to making an actual commitment? Does your firm prefer to strengthen existing relationships and do follow-on funds or seek new general partners to find added value?

5. Describe the benchmark or process that the firm uses to determine which general partners are the best in class and the highest performing managers in the "top quartile".
6. What characteristics make some separate account real estate managers or Fund GP's more likely to earn attractive real estate returns?
7. Indicate the firm's geographic investment coverage in the following markets; please indicate if you plan to make future investments in the next 3-5 years; also include what the possible committed weights of the HIERS RE portfolio (% totally 100%) be in the regions in the year 2015? 2020?
  - a) United States
  - b) Canada
  - c) Western Europe
  - d) Central and Eastern Europe, Russia
  - e) East and Southeast Asia
  - f) India
  - g) Australia
  - h) Latin America
  - i) Others
8. Briefly describe the firm's due diligence process.
9. What is your approach to allow the client to source its own partnership funds? Please describe any experience with this arrangement.
10. Briefly describe the firm's experience with alternative or specialty real estate assets, including infrastructure, affordable and work-force housing, hospitality, recreational/golf course lands, etc.

### **Conflicts of Interest**

11. Does your firm have a dedicated, full-time compliance officer? If not, who manages conflicts?
12. Does the firm, or parent company, currently engage in any other business activities other than non-discretionary real estate consulting? If "yes," describe the nature of the other business activities, what percentage of the non-discretionary real estate consulting business makes up the total revenue of the overall firm, and how you mitigate conflicts of interest among various parts of the business where such conflict exists or is perceived to exist.



13. Does the firm currently manage, or plan to offer, any Fund of Funds products? If “yes,” describe how the firm avoids any conflicts of interest between its Fund of Funds product and other real estate offerings available to clients. Describe how the firm allocates over-subscribed investment opportunities among clients. Describe how the firm allocates over-subscribed investment opportunities among clients.
14. Describe any financial relationships that exist with other organizations such as brokerage firms, insurance companies, commercial banks, investment banking firms, investment management firms, etc.
15. Describe your firm’s gift acceptance policy.
16. Please disclose the nature of any business relationship that the firm has now, or has had, in the past ten years with any current or past ERS Board member, consultant, or staff.
17. Describe any other potential or real conflicts of interest that currently exist.
18. What is your firm’s position on third-party placement agents and do you currently engage or do business with such service providers? Where do they add value (if any)?

### **Miscellaneous**

1. Please write a one page real estate investment plan briefly describing what recommendations you would make to restructure the HIERS portfolio if you were awarded a contract to consult on the real estate portfolio on a non-discretionary basis; provide an electronic Word Document.
2. Please include no more than three samples of white papers or other short research communications provided to your clients on real estate; include as electronic documents.
3. What impact has FASB 157 had on your business and its ability to report performance back to the client on a timely basis? Please describe some of the issues that your firm has addressed with complying with FASB 157 especially as it relates to your US public pension plan clients. What issues have your clients raised with your organization on this matter?
4. Describe the firm’s policy or position regarding FOIA (Freedom of Information Act) requests and other public disclosure laws. What are some of the issues that have been confronted by your other public pension clients?
5. Does the firm provide clients with an online web portal? How long has this site been in use? Describe in detail the information that is available on this website. e.g., partnership names, commitments, aggregate IRR by investment type, fund level IRR, etc.)
6. List the major bank custodians that the firm has experience working with.

**Fees**

1. Provide your fee schedule. Assume full-service real estate consulting (include cost of travel, if any, to ERS for attending up to eight meetings with the Board or Investment Committee). Please state the full scope of services you will provide under your stated fee structure. In addition, please specifically list any Scope of Services listed in this RFP that you will not provide under the fee schedule. Please provide separate fee schedules for real estate services, without real asset services, and for only real asset services. The proposal will be evaluated on the basis of fees for real estate services, without real asset services. The ERS reserves the right to negotiate fees for real asset services upon award of the contract.

## FEE PROPOSAL

As the term of the contract is expected to be for approximately three (3) years, with a three year extension issued at the discretion of the ERS, the Fee Proposal should be guaranteed for a period of not less than six (6) years from the effective date of the contract. The services detailed under Paragraph VI of the Scope of Work Section of this RFP should form the basis for the proposed fees and should be referred to for a detailed description of the services required of the successful offeror. Proposed fees must include travel, taxes and all expenses.

Offerors should submit an all inclusive annual fee for all services, except services for real assets, as follows:

All inclusive flat fee – year 1	\$ _____
All inclusive flat fee – year 2	\$ _____
All inclusive flat fee – year 3	\$ _____
Sub Total (Years 1-3)	\$ _____
All inclusive flat fee – year 4 (if extension is issued)	\$ _____
All inclusive flat fee – year 5 (if extension is issued)	\$ _____
All inclusive flat fee --year 6 (if extension is issued)	\$ _____
Total Fees (Years 1-6)	\$ _____

The method of payment is described in Paragraph III of the Scope of Work section.

The final contract fee should represent the only compensation received by the consultant for services provided to the ERS. There should not be any other benefit, monetary or otherwise, that results from this relationship between the consultant and ERS.

Please provide information regarding fees for real asset services separately. The proposal will be evaluated on the basis of fees for real estate services, without real asset services. The ERS reserves the right to negotiate fees for real asset services upon award of the contract.