


CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
INTRADEPARTMENTAL CORRESPONDENCE

Date: July 15, 2020

To: Retirement Board Members

From: Linda P. Le, Interim Retirement Plan Manager 

Subject: Board Agenda Item No. 10: Discussion of In-Kind Distribution Management Services Mandate (July 22, 2020, Regular Retirement Board Meeting)

Recommendation

That the Board of Administration (Retirement Board) of the Water and Power Employees' Retirement Plan (Plan) interview all three candidates that responded to the Plan's In-Kind Distribution Management Services (DMS) mandate:

- Hamilton Lane Advisors, L.L.C.
- J.P. Morgan Asset Management Private Equity Distribution Management
- Mission Creek Capital Partners

Summary

At its regular meeting held on July 10, 2019, the Retirement Board approved a Request for Proposal (RFP) for a DMS mandate so the Plan could liquidate any in-kind distributions received from its private market managers by establishing a bench of in-kind distribution managers. In November 2019, the RFP was published, after staff worked with multiple City Departments to update the required documents that are included in the appendices of the RFP and also began the process to create a DMS contract template with the City Attorney and outside counsel.

In response to the RFP, three firms submitted proposals. An initial screen was conducted to check for 100 percent compliance with Required Minimum Qualifications (RMQs). Furthermore, candidates were checked for compliance with preferred criteria (PCs). This was done to better understand the firms' track record and experience in managing the mandate.

All three firms complied with the RMQs. Due to the limited number of candidates, no additional screens were implemented to refine the list, and staff and StepStone Group (StepStone), the Plan's private equity consultant, decided to review all three firms. This process involved a deeper look at the firms' responses. Staff and StepStone independently scored the responses based on following categories and respective weightings:

- Firm/Organization: 10 Percent
- Professional Staff: 10 Percent
- Clients/Experience: 15 Percent
- DMS Strategy: 30 Percent
- Reporting/Performance Data: 10 Percent
- Operations/Technology: 10 Percent
- Fees: 15 Percent

Staff and StepStone subsequently discussed their findings and concurred on each candidate's final score. The three firms listed above are being recommended as finalists to interview before the Retirement Board.


As mentioned above, staff evaluated and scored the three candidates on their responses to all 78 questions in the DMS RFP, which is an entirely new mandate for the Plan, and thus required careful review and additional consultations with StepStone. Additionally, staff worked with the City Attorney and outside legal counsel to draft a DMS contract template. Having the contract template in place for this new mandate will speed up the hiring process when the Retirement Board interviews and selects a DMS manager(s) at a Board meeting in the near future.

Initially, the Plan's previous private equity consultant, Pension Consulting Alliance, had recommended establishing a bench of transition managers. However, given the changes in the DMS industry and the high quality of respondents to the RFP, StepStone is recommending, and Staff concurs, that the Board select one DMS manager from the list above after interviewing the candidates. A single DMS manager will allow for increased efficiencies should the Plan have an opportunity to receive a distribution because there is usually a very short timeframe to obtain the in-kind securities from the General Partner of the private markets fund.

The attached memo and report from StepStone provides additional summary details of the results.

The following documents are attached:

- Correspondence from StepStone dated July 22, 2020

for 

Jeremy Wolfson
Chief Investment Officer

LPL/JW/SV/AL:jy

MEMORANDUM

To: Water and Power Employees' Retirement Plan ("Plan")
From: StepStone Group ("StepStone")
Date: July 22, 2020
Re: Interview of In-Kind Managers

Recommendation

That the Board of Administration ("Retirement Board") of the Water and Power Employees' Retirement Plan interview and select one of the following three candidates for the Plan's management of private equity in-kind distributions.

- JP Morgan
- Hamilton Lane
- Mission Creek

Summary

At its board meeting on July 10, 2019, the Retirement Board approved a Request for Proposal ("RFP") for a manager to convert distributed shares from the private equity portfolio into cash.

In response to the RFP, three firms submitted proposals. An initial screen was conducted to check for 100 percent compliance with the Required Minimum Qualifications. Furthermore, candidates were checked for compliance with preferred criteria. This was done to better understand the firm's track record and experience in managing the mandate. The Required Minimum Qualifications included:

- Organization
 - Firm must have been in existence for at least five full years.
 - Firm must be a Registered Adviser with the Securities and Exchange Commission ("SEC").
 - Firm must not have been censured by the SEC or subject to regulatory action within the last three years.
 - Firm must disclose the amount of insurance coverage for errors and omissions and professional liability.
 - The Firm must complete the RFP questionnaire in its entirety.
- Distribution Management Services
 - The firm must have provided distribution management services for at least five continuous years ending March 31, 2019.
 - The firm must be directly responsible for the management of the distribution management services, and all personnel responsible for performing the services must be employees of the firm.
 - The firm must have at least three investment professionals dedicated full time to distribution management services.
- Standard of Care
 - The Firm must abide by the regulations of the SEC, NYSE, FINRA, and NFA while performing distribution management services in the best interests of its clients.

All three of the firms complied with the Required Minimum Qualifications. In addition to the minimum qualifications, Staff and StepStone established the preferred criterion of having at least three other public pension plan distribution management clients as of September 30, 2019. Each of the three firms that responded met this preferred criterion as well.

RFP Scoring and Finalist Recommendation

Staff and StepStone independently scored the responses for all three candidate firms using a standardized scoring framework. The focus of this analysis was to evaluate each firm based on both quantitative and qualitative measurements. The main objective was to identify firms which had demonstrated the ability to successfully manage in-kind distributions historically, as well as offering superior combination of resources, experience, low cost and infrastructure to offer a repeatable process. Staff and StepStone independently scored the responses based on the following categories and respective weightings:

- Organization: 10%
- Professional Staff: 10%
- Clients/Experience: 15%
- Investment Process/Systems/Execution: 30%
- Reporting and Performance Data: 10%
- Operations/Other: 10%

- Fees: 15%

The independent scores of Staff and StepStone were then compared and combined. Staff and StepStone further discussed the evaluation of each firm to determine the candidates to move forward as finalists for this mandate.

In discussing the candidates, it was determined that all three firms were qualified and well suited to manage the mandate. Therefore, Staff and StepStone recommend interviewing all three firms as finalists for the mandate.

Upon completion of the interviews, Staff and StepStone may recommend choosing only one firm to manage the mandate. This would allow the Plan to benefit from efficiency, speed and potential scale discounts.