



**REQUEST FOR INFORMATION FOR
PRIVATE EQUITY INVESTMENT MANAGEMENT SERVICES**

Questions & Answers

March 2010



General Questions

1. Could you provide a Microsoft Word version of the RFI Questionnaire?

The Microsoft Word version of the RFI Questionnaire has been posted on PCA's website at the following address: <http://www.pensionconsulting.com/perfi.htm>.

2. Can you identify the name of the pension fund? What are the Fund's total assets? How much has it invested versus committed to private equity assets?

The name of the U.S. pension plan as well as its policies and forms will be released to candidates that are selected to participate in first round interviews and due diligence.

3. Has the client historically invested in direct private equity deals? If yes, how has client sourced these deals?

The U.S. pension plan client is a sophisticated investor that has direct private equity experience. In the past these direct investments have been reviewed and analyzed by consultants and investment managers.

4. We understand that Proposers may submit responses to the RFI for one or both mandates. Will any preference be given to Proposers who submit responses for both mandates or is this point not part of the evaluation criteria?

Proposers are welcome to submit a response for either one or both mandates. However, Proposers are not required to submit a response to both mandates. Each mandate will be evaluated separately. If Proposers choose to submit a response for both mandates, they will not be given any preferential treatment. All responses will be judged based on the criteria outlined in Section VI – Evaluation Criteria of the RFI. However, if a Proposer does submit a response for both mandates the Proposer should feel free to demonstrate the benefits, efficiencies and challenges related to overseeing the two mandates.

5. Proposal format: would PCA accept 8.27 x 11.7 inches paper format (European) rather than 8.5 x 11 inches as stated in the RFP?


PCA and the U.S. pension client would prefer to accept information on 8.5 x 11 inches if possible.

6. Does the RFI have to be 40 pages if we are planning to submit proposals both strategies?

The RFI can be up to 40 pages for each mandate.

7. Under the Investment Advisers Act there has to be a relatively short notice period for termination of the advisory agreement. We understand this to be usually 60-90 days. What would this notice period be for this pension client? (Section IV.C)

The notice period is 90 days.

- 
-
- 8. Will investment discretion be entrusted to the General Partner or will the Fund retain discretion over each investment? The “Veto Rights” term in Section IV.C. would imply the Fund expects to retain discretion over each commitment.**

For each mandate, the General Partner will be responsible for identifying, analyzing and recommending investments to the client. The client will retain a veto right with regard to what is accepted into the portfolio.

- 9. Section VII.G.3. You mention that we should assume 5 years for modeling. Is there a particular reason for this?**

This is an error. Please assume a 10 year life of the fund (and not 5 years) for modeling purposes for both the co-investment and the fund-of-funds mandate.

- 10. Are redacted documents acceptable as it relates to the client recommendations requested in Section VII.H.3?**

Redacted documents are acceptable.

- 11. Would it be acceptable to submit the RFI by email on March 26 and then send the paper copies to arrive the following Monday?**

No. All submissions (both electronic and paper) need to be received by March 26th at 4pm ET.

- 12. Can you elaborate on Section III.C.10? Does the “General Partner Commitment” in Section IV.C. address this issue? If not, can you specify the minimum amount you would expect the investment manager to invest in each deal or fund investment?**

It is preferred that a 1% or greater General Partner contribution be made. A cash commitment is preferred; fee offsets for a portion of the contribution would be negotiable.

- 13. Can you elaborate on the “Transfer” term in Section IV.C? Specifically, does this apply to transfers of co-investments or fund investments between vehicles of the Fund or does the Fund expect to trigger the sale of the underlying co-investment or fund investment?**

The Fund expects to reserve the right to both trigger the sale of underlying investments and to transfer investments out of the specific vehicle. The U.S. pension client wishes to control exits pertaining to co-investments and to affect the transfer of assets to the portfolio of the pension plan regarding fund-of-funds investments should the client and General Partner discontinue their relationship at any point.

- 14. With regards to both the co-investment program and fund-of-funds program for middle market buyout activity in Europe, does the client have interest in venture capital as well as corporate finance investments?**

Venture capital may be a very small part of the opportunity sets. Venture capital is not to be the primary focus/strategy of either mandate.

15. Can you please provide additional guidance with respect to the preferred performance presentation?

Investments should be listed by individual asset as well as by aggregated performance by vintage year and investment category. For co-investments, assets should be shown by individual investment. For fund-of-funds investments, assets should be shown by partnership.

16. Track Record (Section D.1): Is there a particular format that you'd like us to present our European track record? Do you want us to show the track record by gross or net IRR?

Track records should be demonstrated by both gross and net IRRs.

17. Sections III.C.13 and IV.C. regarding time commitments of professionals to the Fund's account appear to be a conflict. Please clarify.

It is expected that the investment vehicle will have both senior team members and a dedicated professional staff to address the investment requirements of the vehicle and to address issues pertaining to the U.S. pension client. There should be a dedicated staff which attends to the daily workings of the investment vehicle. The senior personnel of the investment vehicle must certainly dedicate a significant amount of time to the investment vehicle and will be identified in certain Key Man provisions accordingly. Presumably senior individuals are responsible for identifying opportunities, closing transactions, analysis, due diligence, etc. Often individuals identified within Key Man provisions also operate other investment vehicles outside of the proposed vehicle. It would be expected that senior personnel are dedicating the necessary time and energy to running the fund while professional staff (staff not identified in the Key Man provision) tend to the daily operations of the investment vehicle including monitoring, reporting, etc.

18. Section VII.H.1. What kind of third party compensation agreement are you referring to? Can you provide details? For instance, would the recourse to a marketing agency for the reporting drafting, or to an auditor or legal advisor (for a co-investment or a fund investment) be considered as a third party compensation agreement?

Third party compensation agreements should be disclosed pertaining to entities used in connection with procuring business with the U.S. pension client (third party marketers, placement agents, etc.).



Questions Regarding the Co-investment Mandate

19. What is the scope of the co-investment mandate? Does the Fund want a specific geographic focus (e.g., US-only or global)? Are deals within the fund's state a priority?

The scope of the private equity co-investment mandate primarily includes buyouts, mezzanine, distressed and secondaries, with a lesser degree of interest in venture capital. The co-investment mandate will focus primarily on U.S. private equity buyout activities (middle market and large cap). However, global activities will be reviewed and considered opportunistically. Investments based in the U.S. pension client's state are not a priority for this RFI as the client has already established in-state initiatives.

20. Has the Fund implemented a co-investment mandate in the past? If so, are any of those prior Fund mandates still within their investment periods? Can you provide detail on the size and vintage of each prior co-investment mandate?

The client has implemented a co-investment mandate in the past and prior mandates are no longer within their investment periods. The U.S. pension client will not provide a list of existing private equity manager relationships.

21. Will the co-investment vehicle need to qualify as a Venture Capital Operating Company ("VCOC")?

No. Proposers should qualify as a Registered Investment Advisor.

22. Are there an optimal number of managers contemplated in the RFI for diversification purposes? Are there any other portfolio guidelines that should be considered in responding to the RFI? There are several references to separate account or a one LP commingled fund. Is there a preference for the client to have either a separate account or to create a one LP commingled fund?

The co-investment mandate will have a target commitment size of \$200 million. Proposers should recommend an optimal number of managers in the portfolio for diversification purposes. There is a preference for the client to have a one LP fund structure.

23. Will five years or more of experience with respect to private equity fund investing (manager selection) satisfy this requirement? Also, is an existing co-investment program (currently investing) required?

Actual private equity co-investment and direct investing experience is strongly preferred. Other private equity experience will be considered. It is preferred that the management team have an existing co-investment program or be able to demonstrate the performance of a past co-investment program.

24. Can a manager offer a co-investment program focused only on European opportunities? Could you define, in that case, the amount to be invested in Europe?

No. With regard to Europe, the U.S. pension plan client is looking for a \$200 million fund-of-funds program focused on middle-market buyout funds and not a co-investment program.

Questions Regarding the European Middle Market Buyout Fund-of-Funds Mandate

25. Please indicate if there is a specific definition of the middle-market category, for example, in terms of fund size and/or enterprise value of the portfolio companies that are expected to be prime candidates for the fund.

For the European Middle Market Buyout Fund-of-Funds mandate, underlying portfolio companies should have average enterprise values between €100 and €500 million. Fund sizes can be up to €1 billion.

26. The subsections of Section VII. D. request information that appears to be unrelated to the mid-market buyout fund of funds mandate. Please clarify.

For the European Middle Market Buyout Fund-of-Funds mandate, it is necessary to quantify the track record of the manager/investment team. In addition, it is necessary to demonstrate the investment team's private equity transactional experience.

27. Is Europe for this mandate defined as Western Europe only or does the mandate also include Central and Eastern Europe? Would investments in Russia/Formal Soviet Union be included as well?

The mandate primarily targets investments in Western Europe (including the United Kingdom). Investments in Central and Eastern Europe will also be considered under the broader mandate. Investments in Russia/the former Soviet Union will not be within the scope of this mandate.

28. Domicile: Will the pension fund have a preference whether the fund-of-funds vehicle is structured as a Delaware or Cayman Islands Limited Partnership?

The U.S. pension client can work with either structure so long as the investor has the necessary protections.

29. Would this mandate include "emerging managers" (not to be confused with "emerging market managers"), meaning funds being raised by newer GP firms? Such teams could be "spin-outs" from other established PE firms raising their first independent fund or generally "younger" PE firms with limited track records.

Emerging managers that have the outlined qualifications (as stated in the Request for Information) are welcome to submit a proposal.



Questions Regarding Terms and Conditions (Section IV.C)

30. What flexibility might there be regarding the Terms and Conditions?

The U.S. pension client intends to negotiate the economic terms with the finalists. The U.S. pension client has less flexibility with terms pertaining to governance.

31. Can the veto right be exercisable early on, on the basis of a "fact sheet"?

Investment managers will need to present an actual recommendation via memorandum to the U.S. pension client for any investment to be finalized. Veto rights can be exercised throughout the entire evaluation process from early stage investment screening through to final recommendation.

32. Can the no-fault termination clause be applicable only after a certain minimum period of time (2 year period)?

No.

33. Can we set-up indemnification fees (for instance: 2 years of management fees)?

All economic fees will be negotiated with the finalists.

34. Selling a minority position in a company may incur a significant discount for the seller. How can this requirement be compatible with the clause concerning profit participation which is usually based on a minimum preferred return? Can we define a compensation mechanism?

The terms of a sale or transfer will be negotiated in the Limited Partnership Agreement.

35. With regard to the limited partnership agreement and other legal documents, is it the intention of the Fund to have its own legal counsel (either external or in-house legal counsel) involved in such negotiations? Is it expected that the fee quotes (to be provided by respondents to this RFI) should include or exclude legal fees relating to the negotiation and documentation process?

With regard to setting up the investment vehicle, the U.S. pension client will utilize both in-house and external legal counsel and provide a draft Limited Partnership Agreement. The investment manager will cover its own legal costs with regard to establishing the investment vehicle. For underlying investments, the U.S. pension client will utilize a legal checklist and in-house counsel involvement. In addition, fee quotes should exclude legal fees as these fees should be treated as partnership expenses.