



Employees Retirement System Of Texas
Investment Division

rev. 033010

RFQ# 327-94656-100401

**REQUEST FOR QUALIFICATION
PRIVATE EQUITY
EMERGING MANAGER FUND OF FUNDS**

[March 30, 2010]



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I. Instructions

A. Request for Qualification (“RFQ”) Summary

A.1. **Introduction.** The purpose of this RFQ is to assist the Employees Retirement System of Texas (“ERS”) in its due diligence process for evaluating qualified managers of private equity emerging manager fund of funds.

A.2. **Response Submission.** Firms should submit all information in Microsoft Word via e-mail to purchasing-all@ers.state.tx.us and provide three (3) hard copies of same to ERS’ offices physically located at 200 E. 18th Street, Austin, Texas 78701 or via mail at P.O. Box 13207, Austin, Texas 78711-3207.

FAILURE TO PROVIDE RESPONSES IN THE FORMAT REQUESTED BY ERS MAY RESULT IN THE RESPONDING FIRM BEING ELIMINATED FROM FURTHER CONSIDERATION. ALL RESPONSES SHALL BE VALID THROUGHOUT THE ENTIRE RFQ PROCESS AND ANY RESULTING CONTRACT TERM.

A.3. **Schedule of the RFQ Process.** The RFQ process and potential Contract award shall be conducted in accordance with the following schedule, unless notified otherwise by ERS:

DATE	EVENT
April 1, 2010	RFQ posted to the Electronic State Business Daily
April 7, 2010	Due date for Clarification Questions about RFQ
April 12, 2010	Responses to Clarification Questions
April 16, 2010	Response to RFQ Due 4:00 p.m. Central Time
TBD	Interviews/Presentations with Proposed Manager for Emerging Manager Fund of Funds at ERS offices
TBD	On-site visit of finalist(s)
TBD	Selection of Manager for Emerging Manager Fund of Funds
TBD	Start Date of Contract

B. General Information

B.1. **Retention of Submissions.** All responses submitted become the sole property of ERS. During the evaluation process, ERS shall make reasonable efforts as allowed by law to maintain responses in confidence and shall release responses only to personnel involved with the evaluation of



the responses and implementation of the Contract (as later defined in B.12.) unless otherwise required by law. See Section I.B.7. for more detail on possible disclosure of any information in responses submitted.

B.2. Order of Response Documents. The firm shall submit its response in the order prescribed in the *Deliverables Checklist* referenced at Appendix A.

B.3. Supplements/Amendments to RFQ. In the event that it becomes necessary, at ERS' discretion, ERS may revise any part of this RFQ, or if ERS determines that any additional information is needed to clarify the provisions of this RFQ, supplemental information shall be provided to each firm that has indicated interest in this RFQ. However, ERS shall not be bound by any deviations from or to this RFQ unless ERS specifically agrees in writing to the specific deviation.

B.4. Reserved Rights. ERS reserves the right to reject any and all responses and call for new responses if deemed by ERS to be in its best interest. ERS is under no legal requirement to execute a Contract on the basis of this RFQ. ERS specifically reserves the right to vary all provisions set forth in this RFQ at any time prior to execution of a Contract if ERS deems it to be in the best interest of ERS, its participants, or the state of Texas. ERS is not required to select the lowest price solution but shall take into consideration other relevant criteria as further detailed in this RFQ.

B.5. Submission Costs Not Reimbursed. This RFQ does not commit ERS to pay any costs incurred prior to execution of a Contract. Issuance of this RFQ in no way obligates ERS to award a Contract or to pay any costs incurred in the preparation of a response.

B.6. Prohibited Interest. Except as a participant in any of the plans administered by ERS, a member of the ERS Board of Trustees (the "Board"), a member of ERS Investment Advisory Committee (the "IAC") or an employee of ERS may not have a direct interest in the gains or profits of any Contract executed by ERS pursuant to this RFQ, and may not receive any pay or emolument for any service performed for any firm submitting a response to this RFQ.

In the case where a member of the Board, a member of the IAC or an employee of ERS receives any payment from a firm submitting a response to this RFQ for any services performed for ERS or for any gains or profits of any Contract executed by ERS pursuant to this RFQ, ERS may terminate its relationship with such firm immediately, and ERS reserves the right to seek any legal, equitable or contractual relief to which it may be entitled. Under such circumstances, such firm shall complete any outstanding transactions with ERS as soon as possible. In its discretion, ERS may choose not to consider any future submissions in any competitive bidding process from such firm for at least two full years thereafter.

By submitting its response, the responding firm warrants and represents that it does not have, nor shall it permit, any conflicts of interest that would impair its ability to perform the services required by this RFQ and, if selected, then by the services agreed upon in the Contract. The Contract shall have additional requirements in this regard.

Firms that intend to submit a response to this RFQ should not contact any member of the ERS staff or members of the Board or the IAC. An exception to this rule applies to firms who currently do business with ERS, but any contact made by such firm(s) should be limited to that existing business and should not relate to this RFQ. In addition, such firms should not discuss this RFQ with any employee of ERS, ERS' custodian (JP Morgan Chase), or existing ERS consultants.

Please see Appendix B for a detailed list of such individuals.



B.7. Disclosure of Information. ERS is required to provide access to certain records in accordance with the provisions of Chapter 552, Tex. Gov't Code, and the Texas Public Information Act ("PIA"), formerly known as the Open Records Act. In order to protect and prevent inadvertent access to confidential information submitted in response to this RFQ, the responding firm is required to supply a separate schedule of all pages that such firm in good faith, and with legally sufficient due diligence, considers to contain any confidential and/or proprietary information. **By submitting a response to this RFQ, the responding firm acknowledges and agrees that ERS shall have no liability to such firm or to any other person or entity for disclosing information in accordance with the PIA.** ERS shall not have any obligation or duty to advocate the confidentiality of such firm's material to the Texas Attorney General or to any other person or entity. The responding firm further understands and agrees that upon ERS' receipt of a PIA request for a copy of such firm's response, the only documents that ERS shall treat as confidential and proprietary information shall be the documents such firm identifies as required above. It is the responding firm's sole obligation to advocate in good faith the confidential or proprietary nature of any information it provides in its response to this RFQ, and the responding firm understands that the Texas Attorney General may nonetheless determine that all or part of the claimed confidential or proprietary information shall be publicly disclosed.

In addition, the responding firm specifically agrees that ERS may release such firm's entire response to the RFQ, including alleged confidential or proprietary information, upon request from individual members, agencies or committees of the Texas Legislature where needed for legislative purposes, as provided for in the PIA or to any other person or entity as otherwise required by law.

B.8. Emerging Managers. Pursuant to Section 815.103, Texas Gov't Code, ERS, on a good faith basis, seeks to award contracts to or acquire services from qualified emerging fund managers in private financial services, which include pension fund management, consulting, investment advising, brokerage services, hedge fund management, private equity fund management, and real estate investment. An emerging fund manager is a private professional investment manager that manages assets of not more than \$2 billion.

B. 9. Historically Underutilized Businesses. ERS encourages utilization of historically underutilized businesses ("HUB") that are qualified to provide services required by the Contract. If HUBs are not appropriate, then please indicate in the responding firm's response to this RFQ. If HUBs are utilized by the responding firm in the performance of the Contract, then the requirements applicable to subcontractors shall apply. Additional HUB information can be accessed on the ERS website by using the following link: <http://www.ers.state.tx.us/about/contracts/default.aspx>.

B.10. Subcontractors. Any planned or proposed use of subcontractors by the responding firm shall be clearly disclosed and documented in the response submitted and agreed to by ERS. The responding firm shall be completely responsible for all services performed and for fulfillment of its obligations under the Contract, even if such services are delegated to a subcontractor.

B.11. No Solicitation. The responding firm shall not use, or otherwise disseminate, sell, copy, or make available to any person or entity, lists of ERS employees for any purpose other than what is necessary in order to perform the services required under the Contract, including, but not limited to, marketing purposes or solicitation of any other service or product, unless specifically approved in writing by ERS' authorized representatives. This requirement shall survive the termination of the Contract.

B.12. Contract. A selected firm shall be required to sign a contract with ERS, potentially in the form of a limited partner agreement (the "Contract"). The Contract to be entered into between ERS and a selected firm must contain the following terms, in addition to ERS' other standard terms and conditions: (a) Texas law will apply to the contract and any dispute between the parties will be



submitted to state courts in Travis County, Texas; (b) the relationship and any documentation will be subject to the PIA; (c) the selected firm must comply with applicable conflict of interest laws and regulations; (d) ERS will have the benefit of any lower pricing or greater discounts offered to the firm's other clients at any time; and (e) the selected firm may be subject to indemnification liabilities, liquidated damages, and/or performance guarantees. If a firm is selected for consideration, ERS will provide such firm with an ERS standard form of contract to review. A selected firm must submit any proposed deviations to the ERS standard form of contract within the time designated by ERS after selection, and such deviations may or may not become part of the final Contract between ERS and the selected firm. Deviations from the ERS standard form of contract are strongly discouraged.

B.13. **ERS Background.** See Appendix C for description and history of ERS and see the ERS website, <http://www.ers.state.tx.us/investments/default.aspx>, for the most recent Comprehensive Annual Financial Report.

C. Minimum Requirements

To qualify for consideration, any responding firm and the product must meet the following criteria. IF ALL CRITERIA ARE NOT MET, THEN DO NOT SUBMIT A RESPONSE TO THIS QUESTIONNAIRE. All investment styles will be considered.

Requirements: The firm:

- C.1. must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940;
- C.2. must be registered and in good standing with the Securities and Exchange Commission;
- C.3. should have a minimum of three years with the desired investment style, demonstrate continuity of key personnel, have institutional fund experience, and offer a reasonable fee schedule;
- C.4. must have a clearly defined investment philosophy and decision-making process;
- C.5. must demonstrate generally favorable consistent historical performance, calculated on a cost multiple and IRR basis, based on a composite of all their fully discretionary accounts of similar investment style relative to a predetermined benchmark;
- C.6. must have key personnel governed by the Standards of Professional Conduct established by the CFA Institute;
- C.7. must possess a robust asset base with a diverse client base to ensure ongoing viability;
and
- C.8. must have an established, competent back office environment.



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II. Emerging Manager Fund of Funds Questionnaire

In Response, please restate question first.

Note: This questionnaire is intended to assist ERS in its due diligence process for evaluating emerging manager fund of funds. Please read each question carefully and respond to each one of them as completely as possible. Filling out the questionnaire and providing copies of required (*) documents is only the first step of many in our evaluation process. Providing this data does not guarantee an investment by ERS.

(*) Please refer to Appendix A for a list of required documents to this questionnaire.

1) Fund/Separate Account Information.

(If your firm is not raising a commingled Emerging Manager Fund of Funds (“EMFOF”), provide information for a proposed EMFOF separate account. For the purposes of this RFQ, “Fund” should be construed interchangeably with this potential separate account.)

- a) Fund name, address and contact information.
- b) Placement agent name and address, and names of key individuals, if any is utilized.
- c) Legal counsel utilized by the Fund.
- d) Legal Structure
 - i) What is the legal structure of the Fund?
 - ii) Where is the Fund domiciled? Why was this domicile selected?
- e) Sponsor Commitment
 - i) Describe the commitment of the sponsor—as a GP, as an LP.
 - ii) How does the commitment of the sponsor compare to that of your firm’s prior funds?
 - iii) Are any of the sponsor commitments borrowed funds? If so, who is (are) the lender(s)? On what terms are the funds being lent? Is (are) the lender(s) also an investor(s) in the sponsor, the GP, and/or the Fund as an LP? If so, please describe in detail.
- f) Tax Considerations
 - i) Are there different legal entities proposed or parallel funds available?
 - ii) Describe issues with respect to UBTI. What proportion of the Fund’s returns is anticipated to be UBTI-generated?
 - iii) What mechanisms will the Fund utilize to minimize the impact of UBTI?
- g) Other Products / Funds
 - i) Are there other products/funds other than the Fund that are offered by your firm? Please list all products/funds that have been raised by your firm.
 - ii) Will these products compete with the Fund for opportunities? If not, how does your firm ensure this?



- iii) How does your EMFOF group fit within the context of your firm?
- iv) What conflicts of interest could exist between your EMFOF group and other parts of your firm?
- v) What is the policy regarding allocating investments between this Fund and predecessor funds?
Between this Fund and future funds?
- vi) How does your firm allocate EMFOF investment opportunities among clients? Do prior relationships factor into allocation policies? How is the allocation policy and investment prioritization scheduled? Is there any investment queue for EMFOF opportunities? Is a deal log or rotation log utilized? If a deal log or rotation log is utilized, please provide a copy.
- vii) Are there any investments overlapping more than one of your firm's funds? If so, how are potential conflicts with respect to investors having differing interests managed?
- viii) Has your firm had any other funds or managed accounts that have been closed since it began operations? If so, please explain.
- ix) How much of your prior funds (both EMFOF and non-EMFOF) are committed?
- x) At what stage will any of your firm's prior funds be closed?

2) **Sponsor Overview**

- a) Provide an overview of the sponsor.
- b) Provide a history of your firm with respect to private equity, fund of funds programs, EMFOF programs, and MWBE programs, including years in business and relevant experience.
 - i) What year was your firm originally organized?
 - ii) What year was your firm organized under its current name?
 - iii) Has your firm ever changed its name? If so, when and why?
- c) What percentage of your firm's assets under management is in fund of funds? What other types of assets under management does your firm have?
- d) Does your firm also act as a consultant to private equity investors? If so, what conflicts of interest do you believe exist? How does your firm mitigate these conflicts of interest?
- e) Ownership of the Fund's GP and Sponsor
 - i) Describe the ownership of the Fund's GP and sponsor. Who (entities/individuals) owns 5% or more of the firm? List owners and percentages owned in both the Fund's GP and the sponsor (please provide an explanation if the ownership of the Fund's GP and sponsor differ from one another).
 - ii) What rights does an owner have to sell his or her interest in the Fund's GP and sponsor? What limitations are imposed on transferability of these interests?
 - iii) What percent of your firm is minority-owned?

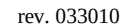


- iv) What percent of your firm is women-owned?
- v) Is the sponsor owned by a parent entity? If so, who is it and what is the overall level of interaction and strategic alignment between your firm and the parent entity?
- vi) Does the sponsor employ any entities in which the sponsor, one or more of its employees, or one or more of its shareholders acts as an owner or principal? If so, please describe these relationships, disclose the level of fees paid to such entities, and detail the services provided. Are these expenses passed on to the existing Fund or any of the predecessor funds? Does the sponsor anticipate employing such an entity in this Fund?
- f) What is the projected growth in equity capital under management over the next 36 months?
- g) Identify the plans for additions to professional staff in relation to growth of accounts or assets under management.
- h) Describe potential weaknesses, or areas needing improvement, either in GP or the Fund.
- i) Does your firm support the ILPA Private Equity Principles? What specific best practices, terms, or LPAC items do you support/not support? Please very specific and thorough in your response.

3.) Team and Resources

- j) Management Team
 - i) Describe the make up of your firm's management team.
 - ii) Indicate investment professionals within your firm whose focus is EMFOF platforms. How long have these professionals focused on EMFOF platforms?
 - iii) How long have the members of the management team worked together and under what circumstances?
 - iv) Describe succession plans for key members of the management team.
 - v) Are any of the management team members under employment contracts? If so, describe the terms of those contracts in detail. If these individuals are not under contract, how will the Fund retain key staff?
 - vi) Who are the key principals of the Fund's investment team?
 - vii) Have any partners, principals, managing directors, portfolio managers or other senior personnel left your firm in the past five years? Describe all additions to and departures of investment professionals from the firm over the last five years.

Headcount Analysis. Please complete the table below to provide current total personnel head count *by functional role* within your organization (please include all individuals including your firm's management team, all investment professionals, as well as all back-office and administrative personnel.)





Departed Personnel's Name	Title	Departure Date	Functional Area	# Years w/ Firm	Why Individual Left	Funds Affected, if applicable	Where Individual is Now

k) Additional Information

- i) Are there any pending departures of key personnel? If so, for each individual, please state the name, role, departure date, and length of tenure, reason for departure, and the new employer. Also state what actions the firm has implemented to mitigate the impact of key personnel departure(s).
- ii) Do any members of the management team have other business interests to which they need to commit time? Please describe any conflicts of interest and how they are mitigated.
- iii) Are there any entities that will be compensated by the Fund in which management team members have a direct or indirect investment? Describe the investment, relationship, services, compensation and conflict of interest controls.

l) Background Checks

- i) Are background checks made on new hires? What are the procedures?

m) Conflicts of Interest / Ethics

- i) Does the firm have an ethics policy? If so, please attach a copy.

n) Compensation

- i) Describe your firm's approach to compensation and incentives for professionals. How are professionals compensated?
- ii) Explain general staff retention techniques.
- iii) How do you ensure that talented junior individuals stay within your organization? What long-term incentives are put in place to promote stability (e.g., ownership of sponsor and/or GP, bonuses)?

o) Carried Interest



- i) How will any carried interest from the Fund be split? Who is included? What percentage of expected pay does the carried interest split represent to the key employees of the Fund? Please list the key employees receiving a split of the Fund's carried interest and the percentage received. How do these splits differ from those of your firm's previous funds?
 - ii) What is the vesting schedule for employees to receive carried interest compensation?
- p) Resources and Business Plan
 - i) Describe the resources of the sponsor.
 - ii) Please provide an overview of the overall business plan including asset and staff growth, infrastructure development, strategy diversification, etc.
- q) Joint Ventures / Operating Partners
 - i) Describe the Fund's expected use of joint ventures ("JVs") in running the EMFOF platform.
 - ii) If any of the Fund's or your firm's previous fund investments have been made through JVs or with operating partners, describe the range of management fee and carried interest structures used to compensate these JV/operating partners.
 - iii) Will your firm have sole and unfettered control of investments made for the Fund? If not, please describe how this control will be shared.
 - iv) If the Fund is making non-controlling or minority investments, how will the firm mitigate risks associated with these investments?
 - v) What due diligence has the sponsor conducted on any JV/operating partner to gain comfort about the stability of the relationship?
 - vi) What divorce rights or termination rights govern any JV/operating partner relationships?
- 4) Investment Philosophy, Strategy and Process**
 - a) Describe the philosophy and processes regarding Fund diversification. Specifically, how will diversification be crafted at the Fund level, manager level, and asset level (e.g., manager exposure, equity versus debt, portfolio versus single asset, strategy diversification, time diversification, etc.)? Provide a pacing schedule for this Fund or a past EMFOF fund.
 - b) How does your organization define an emerging manager? Please be as specific as possible including all criteria relevant to your decision (e.g., fund size, number of individual assets, ownership of firm, etc.)
 - c) What is your organization's view of portfolio construction for an EMFOF program? How does this philosophy lead you to select a manager for investment? How does this philosophy lead you to reject a manager for investment?
 - d) Please provide a list of emerging managers your organization has selected, both for this Fund and for all of your firm's past funds. Why were each of these funds selected?



- e) Please provide a list of emerging managers your organization has evaluated but has not selected for EMFOF platforms in this Fund and in all past funds. Why were each of these managers rejected for inclusion?
- f) What are the targeted geographies?
- g) Has the strategy for this Fund changed from past funds? If yes, how?
- h) Describe the status of the private equity market for the types of underlying managers/funds this Fund will pursue.
- i) What types of qualitative, quantitative, and fundamental research techniques do you utilize to determine how managers complement and correlate with each other as well as with other financial factors and economic variables present in the market?
- j) What challenges might the Fund face in the execution of its strategy?
- k) Competition
 - i) Who are the main competitors of the Fund?
 - ii) What differentiates your Fund from your competitors?
- n) Sourcing
 - i) What attributes have you identified in emerging managers that achieve superior long-term results?
 - ii) How many managers do you review annually? How many emerging managers do you review annually?
 - iii) In how many managers does your firm invest? In how many emerging managers does your firm invest?
 - iv) How many managers are currently on your approved list? How many emerging managers are currently on your approved list? Please provide copies of these lists.
 - v) How much capacity is available from managers on your approved list(s)?
 - vi) What opportunities does ERS have to be involved the Fund's portfolio construction process? In identifying managers? In meeting with managers for reporting and updates?
 - vii) What resources or processes do you use to track fund managers and fund raising timelines?
- o) Due Diligence
 - i) Describe the step-by-step investment process you utilize for potential inclusion into the Fund. What screening process do you utilize for potential managers?
 - ii) What models, metrics, and guidelines do you utilize to analyze managers?
 - iii) How does your firm and the Fund define "deal killers"?
 - iv) Who is involved in the Fund's due diligence process?
 - v) Are these people dedicated to the Fund or do they have additional responsibilities?



- vi) How do you verify historical fund performance of managers? When limited track records are available for managers, how do you evaluate performance?
- vii) How do you analyze the financial stability of managers?
- viii) How do you evaluate investment risk and ensure investors are adequately compensated for that risk?
- ix) Do you perform an attribution analysis at the asset level to determine the source of a manager's investment returns? If so, please provide a copy of such an analysis.
- x) How do you evaluate and manage operational risk of emerging managers?
- xi) How do you evaluate and manage strategic risk of emerging managers?
- xii) How are managers monitored by your firm?
- xiii) How often do you meet with managers you have selected for the Fund and for past funds?
- xiv) How do you perform fund analysis and fund optimization? What analytical tools do you utilize in these processes?
- xv) Does your group negotiate limited partnership agreements of managers selected for investment by the Fund? What terms are negotiated? Are outside law firms engaged by the sponsor to complete these transactions?
- xvi) What special advisors/consultants does your firm plan to use for the Fund and have been used in your firm's previous funds? Describe compensation.
- xvii) What is the firm's documentation process (e.g., due diligence lists, manager logs)?
- p) Research
 - i) Describe your firm's research process.
 - ii) What are your firm's primary research efforts and who are the information providers for those efforts? Do you rely on in-house research or third parties?
 - iii) Who are your firm's key research personnel?
 - iv) What research materials do you provide to clients? Please provide a sample.
 - v) Explain the process used for entering new investment markets.
 - vi) Will you invest in strategies, geographies, stages, or deal sizes with which your firm has had no prior experience? Do you have any intent in doing so in this Fund?
- q) Investment Decision Making
 - i) How are investment decisions made in your firm? For the Fund?
 - ii) Who are the members of the Fund's investment committee? Provide list of members, including tenure with your firm.
 - iii) What is the voting process for the Fund's investment committee? Do you have outside voting members?



- iv) Who has authority to approve or veto a manager for inclusion in the Fund?
- v) How often do the Fund's professionals meet as a group to discuss Fund business? What other business of your firm is discussed at these meetings?
- r) Financing
 - i) Describe the Fund's anticipated use of leverage.
 - ii) What are leverage limits per selected manager (i.e., fund-level leverage at each underlying manager/fund within the Fund)? Per underlying investment (i.e., asset-level leverage within each underlying manager/fund)?
 - iii) What financing sources does the Fund expect to work with or has it worked with in the past?
 - iv) Who sources this leverage?
- s) Post Investment
 - i) How will the Fund's target internal rate of return and multiple of invested equity be achieved (e.g., revenue growth, multiple expansion, expense reduction, leverage, other financial engineering)?
 - ii) How many manager relationships will there be per Fund staff member?
 - iii) How has your organization dealt with underperforming managers in the past?
 - iv) How do you intend to deal with any underperforming managers in the Fund?
- t) Exit Strategies
 - i) Briefly describe the Fund's expected exit strategy alternatives.
 - ii) What exit strategies have been employed in your firm's prior fund of funds? Prior EMFOF?
- u) Co-Investment
 - i) Have preferential co-investment rights been granted to any entity in this Fund? In your firm's previous funds?
 - ii) Will co-investment opportunities be made available to Fund LPs? On what basis?
 - iii) How does your organization source and resource co-investing? If resourced separately please describe team dynamics.
- v) Pipeline
 - i) Are any emerging managers pre-specified for the Fund?
 - ii) What is the total amount of committed and uncommitted capital the entity currently has for investments?

5) Relevant Investment Experience

- a) Please summarize the performance of prior investments (please provide this for each fund of funds, both EMFOF and non-EMFOF, sponsored by your firm in the past as well as for each underlying manager/fund):

[illegible]

(1) "Realization Status" is defined as one of the following: "Fully Realized (100%)," "Majority Realized (>50%)," "Minority Realized (<50%)," or "Unrealized (0%)."

- b) Track Record
- i) What was the average holding period prior to complete payback?
 - ii) What period does the track record cover?
 - iii) Are there any investments made by the sponsor that are not included in the track record? If so, please describe.



- iv) Are the track record investments relevant to the proposed investment activities of the Fund (i.e., are they similar by strategy, stage of investment, deal size and geography)? Please explain.
- c) Detail percentage of your firm's past fund investments by:
 - i) Manager Type (emerging, established, MWBE)
 - ii) Strategy
 - iii) Geography (treating Texas as a separate Geography)
 - iv) Sector

6) Terms

- a) General
 - i) What is the target size of the Fund?
 - ii) What is the minimum size of the Fund?
 - iii) What is the minimum investment amount for the Fund?
 - iv) What is the term and commitment period for the Fund?
- b) Describe any key person provisions. How are these enforced?
- c) Describe manager termination events.
- d) Describe actions that require investor approval.
- e) Describe the Fund's advisory committee. Who is on it? What is each participant's role? Are there any other Fund committees?
- f) Please summarize the fee structure for the Fund:
 - i) Investment Management Fee
 - ii) Incentive Fees/Promoted Interest
 - iii) Advisory Fees
 - iv) Acquisition Fees
 - v) Other Fees
 - vi) Dead Deal Costs
 - vii) Disposition Fees
- g) Discuss organizational costs and expenses of the Fund.
- h) Identify and describe the fee structure and use of related entities for all fees and expenses charged to the Fund:
 - i) Are any monies escrowed in the event the GP receives excess incentive compensation distributions?
 - j) Can the Fund be reopened to admit new LPs? If so, how are valuation issues addressed?
 - k) Will LP interests be freely transferable?
 - l) Describe the indemnification provisions within the Fund.



- m) How are drawdowns made? Provide a drawdown schedule for this Fund as well as a drawdown schedule for one of your firm's previous fund of funds.
- n) Describe the default provisions of the Fund.
- o) Describe the reinvestment policy of the Fund.
- p) Proposed closing dates and projected closing amounts:
 - i) First
 - ii) Interim Closing(s)
 - iii) Final
- q) List all LPs committed to the Fund and their respective sizes.
- r) What is the profile of your investor base for prior funds? Describe the number and type of investors.
- s) What percentage of assets under management do the largest investors represent?

7) Reporting and Valuation

- a) Discuss the valuation policy of the Fund.
- b) Is any performance benchmark used?
- c) What events will cause the Fund to mark a change in the valuation of an underlying fund?
- d) Is the Fund employing a different valuation methodology than that utilized by your firm in previous funds? If so, please describe these differences and why they have been implemented.
- e) Previous Fund Valuation Methodology:
 - i) With what frequency are investments revalued? Which firm employees conduct these valuations?
 - ii) Does your firm and/or the Fund use third parties for underlying manager/fund valuations? If so, describe the process.
 - iii) Are prices adjusted for risk considerations (e.g., significant size relative to the market or the issue, sale restrictions, increased market volatility)?
 - iv) Has there been a significant difference between estimated fund valuation and final fund valuation? If so, what has typically been the cause of these discrepancies? Address original underwriting versus realized.
- f) Describe the basis of accounting used for quarterly and annual financial statements. (e.g. fair value, tax, historical cost).
- g) Fund Reporting
 - i) Describe the reporting of the Fund's activities. Describe reporting requirements for annual reports, quarterly reports, tax information, and valuation updates.
 - ii) When will annual reports be distributed?
 - iii) When will quarterly reports be distributed?



- iv) When will tax documents be available for the Fund after year end?
 - v) Will distribution letters detail characteristics of distributions between income, return of capital, and capital gain or loss?
 - vi) Describe procedures and controls in place to ensure reporting in accordance with due dates imposed.
 - vii) How are reports provided to investors (e.g., PDF, hard copy, link to web site)?
 - viii) In your firm's previous funds, have investor reports been issued subsequent to due dates imposed by the private placement memorandum or limited partnership agreement? If these reports were provided after the stated due date, what information was provided to investors during the interim period(s)?
 - ix) Please provide sample investor distributions letters for prior funds.
- h) Audits
- i) How often will the Fund's financial statements be audited?
 - ii) Will audited GAAP statements with an unqualified opinion be provided annually?
 - iii) Will the auditor's opinion contain a statement regarding the Fund's compliance with the Contract during the relevant fiscal year?
 - iv) Will quarterly reports be audited?
 - v) Will audits include a review of the methodology of return calculations used to report to investors?
 - vi) Who is the Fund's auditor?
 - vii) Has the sponsor ever re-stated performance? If yes, please explain.
 - viii) Will audits be performed on each underlying manager/fund?
 - ix) Has any of the sponsor's underlying fund audit firm(s) ever been changed? If yes, please explain.
 - x) For which entities are audits performed (e.g., the Fund, sponsor, underlying managers/funds, etc.)?
 - xi) Describe proposed and past audit adjustments and any impact on financial statements. Has anything other than an unqualified opinion been received on any current or historical financial statements – fund, firm, or management company (e.g., have any disclaimers and/or qualifications been issued)?
- j) Credit Facility
- i) Has a fund line of credit been used for acquisitions before calling capital from LPs in the Fund? In any of your firm's previous funds? If so, how has this been accounted for in reporting investment results?
 - ii) Has your firm or any affiliated entity ever failed to make any payment when due under any secured or unsecured indebtedness?



- k) Capital Calls
 - i) Describe the frequency of capital calls and distributions articulated by the Fund's placement materials. How have capital calls been actually executed in your firm's past funds (e.g., monthly, quarterly)? How much notification is provided to investors of upcoming capital calls and distributions?
 - ii) Are capital calls issued for fund expenses and fees or are these separately billed to investors?
- l) Cash Reserves
 - i) Describe your firm's current policy for determining cash reserves at the Fund level and reviewing cash reserves at the underlying manager/fund levels.
 - ii) Do money movements require independent third party signatures?
- m) Waterfall Calculations
 - i) Who maintains the Fund's investor waterfall models? What is the review and approval process? Who reviews the waterfalls at each underlying manager/fund?
 - ii) Is a review of Agreed Upon Procedures performed by a third party on return calculations and waterfall models?
 - iii) Provide an example of the Fund's waterfall calculation.
- n) Fund Administration
 - i) Is your administration performed in-house or do you use an outside service? If in-house, please specify the name(s), phone number(s), and email address(es) of firm personnel in charge of administration. If an outside service, please provide the firm name, contact name(s), phone number(s), and email address(es) of personnel in charge of administration.

8) Risk Management

- a) Who in your firm is responsible for risk management? Is there a specialized risk analysis and management department?
- b) Explain in detail the process for risk review. Please include reporting lines, formality, frequency, documentation, escalation and decision-making processes.
- c) What risk factors do you monitor?
- d) How do you evaluate and verify risk monitoring and reporting of potential managers?
- e) How do you calculate and measure risk? What tools and/or systems do you utilize for risk measurement and management?
- f) Does the Fund and sponsor maintain detailed policies and procedures manuals?
- g) What are the risks you perceive in the Fund's strategy and portfolio?
- h) Who reviews ERISA compliance? Is this done internally or externally?



- i) Leverage Risk
 - i) Explain in detail how the Fund measures leverage (include the treatment of any derivatives).
 - ii) What is the average leverage employed? Please explain why this amount is optimal for the Fund.
 - iii) What active processes are employed to manage leverage?
 - iv) Is there a maximum leverage amount in the Fund's limited partnership agreement? Can this maximum be exceeded or increased in any way? If so, how?
- j) Please describe the Fund's limits:
 - i) Leverage (maximum by contract, average employed)
 - ii) Geographic exposure limits
 - iii) Manager exposure limits
 - iv) Investment strategy (eg. Buyout, Venture, Credit, Other)
 - v) Investment size limits
 - vi) Minimum manager qualification requirements
 - vii) Liquidity
- k) Contingency Plans
 - i) Describe your technology platform and key system components.
 - ii) Describe your disaster recovery plan (including detailed backup procedures in the event that your firm's offices or computer systems became unexpectedly non-operational or inaccessible). Include in the attachments a copy of your disaster recovery plan.
 - iii) Have there been any significant operational or administrative "bottlenecks" or difficulties experienced by your firm in the past five years? How are staffing resource limitations addressed during high volume periods (e.g., quarterly and annual reporting, tax preparation season)?
- l) Insurance
 - i) What type of insurance coverage(s) does the firm maintain? Please note all insurance coverage(s) at the Fund and sponsor levels and provide a schedule showing level of coverage, provider, adequacy, and any possible oversights.
 - ii) For your professional liability, crime/fidelity, and directors & officers liability insurance coverage(s), please detail the entity covered and the types, limits, and deductibles for these policies.

9) Legal

- a) Provide the limited partnership/limited liability company agreement for the Fund. If none yet exists, please provide a limited partnership agreement utilized by your organization for a past fund of funds product. Please list any changes likely to be incorporated in any new limited partnership/limited liability



agreement utilized by the Fund. (Note that any contract or agreement entered into between us and your firm must be acceptable to us and must incorporate, at minimum, the items set forth in Section B.12. of this RFQ.)

- b) Is your legal work done in-house or externally? If in-house, please provide the name(s), phone number(s), and email address(es) of the individual(s) with this responsibility. If externally, please provide a list of the firms used and how each is used (e.g., fund structuring, litigation) and please provide the contact name(s), phone number(s), and email address(es) of the individuals with these responsibilities.
- c) With which regulatory authorities is your firm registered? Date of registration(s)?
- d) Has your firm, the Fund, any of the firm's previous funds, and/or any employees thereof ever been subject to either an informal or formal corrective action issued by a regulatory authority? Are there any inquiries outstanding?
- e) Does the firm or any of its principals or partners own a controlling interest in any broker/dealer? If yes, please describe.
- f) Will the Fund obtain a VCOC opinion? If so, from whom and how often?
- g) Has the firm or any of its employees had any disputes over non-compete, non-disclosure, or similar covenants? Has the firm agreed to indemnify any of the employees involved in any of these disputes?
- h) Have there ever been any criminal, civil, association, or administrative proceedings against the firm or any of its affiliates or principals, or any similar matters (including but not limited to reparations, arbitrations and negotiated settlements)? If so, please describe in detail.
- i) Are there currently any pending criminal, civil, association or administrative proceedings against the firm or any of its affiliates or principals, or any similar matters (including but not limited to reparations, arbitrations and negotiated settlements)? If so, please describe in detail.
- j) Are there any past, current or pending regulatory issues/findings against your firm or any of its affiliates or principals (including but not limited to any and all fines or disciplinary actions)? If so, please describe in detail.
- k) Does the firm maintain a written compliance manual? If so, please provide a copy.
- l) Has your firm or any of your firm's key employees ever terminated a fund or an investment management firm? If so, why and under which circumstances?
- m) Is your firm (including your parent company) required to answer "Yes" to any elements of question 11 in Part I Form ADV filed with SEC? If so, please describe in detail.
- n) Have any of your firm's professionals who have CFA designation ever been disciplined by the CFAI?
- o) Does the firm have any marketing or consulting agreements currently in effect? If so, please describe in detail.



- p) Has the firm appeared in any advertisement or newspaper or magazine article in the past five years? If so, please describe.

Third Party Marketer

1. Describe your process for selecting third party agents.
2. How many third party relationships do you have and have you terminated any in the past three years. Please explain reason for terminating the relationship.
3. What mechanisms of control do you have to avoid potential conflicts of interest amongst the firm's employees, third party agent, potential client and/or any individual that could exert influence in the outcome of a commercial relationship?
4. Have there been, or will there be any third party marketing or sales fees paid or incurred in the procurement of this account? If so, please list to whom such fees will be paid and the amount and other terms of such fees.



III. Appendices

- Appendix A – Deliverables Checklist
- Appendix B – ERS Board, IAC and Employee List
- Appendix C – ERS Background
- Appendix D – ERS Investment Policy
- Appendix E – Holdings Template
- Appendix F – Returns Template
- Appendix G – The Contract and Contract Deviations



Appendix A

Deliverables Checklist

Response to this RFQ must be submitted in the following order divided by tabs numbered as indicated.

1. Cover letter with firm name, product name, contact information.
2. ADV Form
3. Completed Questionnaire (**see Section II**)
4. Detailed Organizational Chart
5. Audited Financial Statements
6. Personal Trading Policy
7. Code of Ethics
8. Compliance Policy
9. Portfolio Guidelines
10. Contract Deviation Response/Your Form of Contract (**See Appendix G**)
11. Historically Underutilized Businesses (**See B.9.**)



Appendix B

ERS Board, IAC and Employee List

This list is provided as a reference only and is not intended to be a complete listing. Firms are required to inquire with ERS if there is any concern about a specific individual or if a current list is needed.

Board of Trustees	Investment Advisory Committee
Craig Hester	Vernon Torgerson
Cydney Donnell	Milton Hixson
Yolanda Griego	Robert Alley
Cheryl McBride	Luther King, Jr
Owen Whitworth	Ken Mindell
Donald Wood	Laura Starks
	Lenore Sullivan
ERS Investment Division	
Adriana Ballard	Lauren Honza
Amy Cureton	Leticia Davila
Andrew Hodson	Lynne Fowler
Annie Xiao	Mandy Holt
Benjamin Bowman	Mark Fiedler
Bradley Demicco	Michael Clements
Brent Clukey	Michael Prins
Carlos Chujoy	Nancy McCarthy
Carmen Alexander	Neil Henze
Carolyn Anderson	Nicholas Tramontana
Charles Thomas Tull	Patrick O'Hara
Christopher Tocci	Proctor James Sherwin
Darrell Jackson	Richard Slaughter
David Veal	Robert Kramm
Dianna Brooks	Robert Meyers
Elizabeth Martin	Robert Newhall
Gerardo Trevino	Robert Sessa
Hau Michael Yuan	Robert Wood
Hue Moser	Scott Day
Jacqueline Johnson	Scott Osborn
Joan Miller	Siddarth Rangan
John Streun	Stuart Williams
Johnny Taylor	Tanna Ridgway
Jonathan Lewis	Teofilo Bacungan
Joseph Paul Knight	Thomas Roberts
Karen Mullins	Wesley Gipson
Keith Lyons	York Lin
Kelley Hewell	
ERS Investment Accounting	
Carlos Carreon	Man Chan (Eddie)
Chris Glancy	Michael Wheeler
Connie Kunze	Patricia Aguilera
Lynne Pfeffer	Vanessa Hunt
Leslie Latimer	



Appendix C

ERS Background

ERS is a constitutional trust fund established as mandated by Article XVI, Section 67 of the Texas Constitution, and further organized pursuant to Title 8, Tex. Gov't Code, as well as Title 34, Tex. Admin. Code, Part 4. ERS administers the retirement system and invests the system's funds in such securities as the Board may consider prudent investments. ERS administers funds for retirement benefits, the Texas Employees Group Benefits Program ("GBP"), TexFlex and TexaSaver programs. GBP provides employment-related benefits, including insurance benefits (health, dental, life and disability) for certain public employees, retirees and their dependants; TexFlex is the federal program which allows employees to set aside pre-tax money for day care and health expenses and TexaSaver is a voluntary retirement savings program that allows employees to invest their own savings with pre-tax money in a 401(k) or 457 plan. The retirement system administers these funds for several classes of public servants, including elected officials, appointed public officers, state employees of certain state institutions of higher education and their dependents. The system administers the trust funds with a fiduciary obligation to more than 204,000 members and retirees. The ERS, the Law Enforcement and Custodial Officer Supplemental Retirement Plan ("LECOS") and the Judicial Retirement System of Texas Plan II ("JRS II") are single employer defined benefit pension plans. For investment purposes, the trust funds are commingled but separate accounting records are maintained.

The six-member Board is the trustee for trust funds maintained and administered by the retirement system. The Board is responsible to administer the retirement system and to invest the funds of the retirement system in such securities for investment decisions pursuant to Section 815.103, Texas Gov't Code. Three members are elected by members of the retirement system and retirees, three members are appointed with the advice and consent of the senate, one each by: the Governor, the Chief Justice of the Supreme Court and the Speaker of the House of Representatives. The Board may establish advisory committees as it considers necessary to assist it in performing its duties pursuant to Section 815.509, Texas Gov't Code and Rule 63.17(b), Tex. Admin. Code. The Board appoints investment professionals to the Investment Advisory Committee. The Investment Advisory Committee was created to consult with and advise the Board, ERS Executive Director and staff on investments and investment related issues.

In addition, the Executive Director of ERS is granted full authority and responsibility by the Board in the implementation and administration of its investment programs subject to Board policies, rules, regulations and directives consistent with constitutional and statutory limitations.

Approximately three-quarters of invested funds are invested solely by internal ERS staff. For the remaining quarter, staff receives advisory services from external advisors; however, the discretionary authority for all investment decisions remains with ERS.



Appendix D

ERS Investment Policy

See http://www.ers.state.tx.us/investments/policies/documents/investment_policy.pdf for policy.



Appendix E
Holdings Template
(Excel Format Template)

Firm: **Firm's Name**
Portfolio: **Portfolio's Name**

Date	Sedol/Cusip	Ticker	Description	# of Shares	Price	Market Value	% of Portfolio	Currency
1/1/2009	2090035 US	XYZ	XYZ LTD.	2,000,000	1	\$2,000,000	0.35	US



Appendix F
Returns Template
(Excel Format Template)

Firm: **Firm's Name**
Portfolio: **Portfolio's Name**

Date	AUM	Gross Return	Net Return
Jan-09	\$6,000,000	1.4%	1.35%
Feb-09	\$6,020,350	.28%	.275%



Appendix G

The Contract and Contract Deviations

1. As requested in Section II.9)a) of this RFQ, please provide the limited partnership/limited liability company agreement for the Fund. If none yet exists, please provide a limited partnership agreement utilized by your organization for a past fund of funds product. Please list any changes likely to be incorporated in any new limited partnership/limited liability agreement utilized by the Fund.
2. The Contract to be entered into between ERS and a selected firm must contain the following terms, in addition to ERS' other standard terms and conditions: (a) Texas law will apply to the contract and any dispute between the parties will be submitted to state courts in Travis County, Texas; (b) the relationship and any documentation will be subject to the PIA; (c) the selected firm must comply with applicable conflict of interest laws and regulations; (d) ERS will have the benefit of any lower pricing or greater discounts offered to the firm's other clients at any time; and (e) the selected firm may be subject to indemnification liabilities, liquidated damages, and/or performance guarantees. Clearly identify in your RFQ response any of these provisions-to which you are unable to agree by listing both the provision and your reason for deviation.
3. If a firm is selected for consideration, ERS will provide such firm with an ERS standard form of contract to review at that time. A selected firm must submit any proposed deviations to the ERS standard form of contract within the time designated by ERS after selection, and such deviations may or may not become part of the final Contract between ERS and the selected firm. Deviations from the ERS standard form of contract are strongly discouraged.
4. ERS is seeking a qualified manager of private equity emerging manager fund of funds that will agree to and comply with all provisions of the ERS standard form of contract. ERS shall presume your agreement to the provisions of the ERS standard form of contract, except for items specifically noted and described in response to this interrogatory. In any event, ERS shall not be required to accept any deviations to the ERS standard form of contract terms or to the terms of this RFQ. Any such deviations must be specifically agreed to in writing by ERS before they shall form a part of the Contract between ERS and the chosen manager.
5. The selected manager for an emerging manager fund of funds shall be required to sign the Contract with ERS relating to the services described in this RFQ. However, ERS retains the right to modify the required terms described above and to add additional terms, at its discretion, in preparation of the Contract to be executed by the parties and is not restricted to the language provided herein in this regard. Additional related agreements may also be required.

[ERS FORM OF CONTRACT TO FOLLOW AT A LATER DATE]