

# **The Pension Plan for the Employees of the Municipal Authority of Westmoreland County**

Request for Proposal for Professional Services

## **Middle-Market Private Debt Fund Management**

**Responses due by 2 pm ET, Tuesday, October 25, 2016**

The Pension Plan for the Employees of the Municipal Authority of Westmoreland County is soliciting proposals from qualified investment companies to manage approximately \$3 million in a middle-market private debt fund (awarded to 1 manager). The Authority is not seeking credit hedge funds, fund of funds, infrastructure funds, real assets funds, or Act '40 mutual funds.

In conjunction with this RFP, the Authority has engaged the investment consulting services of Morrison Fiduciary Advisors, Inc. to assist in the evaluation process. Morrison is a fee-only, institutional investment consulting firm with no affiliation with any money manager or broker dealer, which allows Morrison to be completely objective when advising the Plan.

This Request for Proposals (RFP) is issued in accordance with the requirements set forth in Pennsylvania Act 44 of 2009 and any potential vendor should familiarize themselves with this Act and conform to its specific requirements including complete an Act 44 disclosure form as part of its response to this RFP.

The Authority has approximately \$50 million in defined benefit pension plan assets. Attached to this RFP is the Plan's current Investment Policy Statement which can be used as a reference when considering this RFP. Updated IPS language for this asset class will be added during this RFP process.

In selecting the Middle-Market Private Debt Manager, the Authority has established the following minimum standards.

- Responding firm is a registered investment advisor with the SEC pursuant to the Investment Advisors Act of 1940 for at least 10 years.
- Responding firm and its team have all authorizations, permits, licenses and certifications required by federal and state laws and regulations to perform the services specified by this RFP.
- Responding firm, has over \$1 billion in assets under management, managed over \$300 million in middle-market private debt assets and has raised at least 2 prior funds in this asset class with successful results.
- National-caliber firm in terms of private equity and debt capabilities, institutionally-focused as demonstrated by client base and a fee schedule which reflects the competitiveness of today's marketplace.

## I. GENERAL INFORMATION

Firm Name: \_\_\_\_\_

RFP Contact: \_\_\_\_\_ Phone # \_\_\_\_\_

Contact Email: \_\_\_\_\_

## II. FIRM INFORMATION

1. State whether or not you comply with all of the minimum standard requirements listed on the previous page. (If not, please explain.)
2. What is the firm's inception date? Please include the ADV Part 2A as an attached document. (Appendix A)
3. Provide an organizational chart of your firm's private debt investment committee and key decision making personnel along with their experience and years at firm including brief biographies. Also provide the name(s) of the client service personnel that would be assigned to our account including brief biographies.
4. Identify private debt assets under management and a breakdown of those assets between Corporate, Public, Taft Hartley, Foundation & Endowments, and High Net Worth Individuals.
5. If your firm has any broker/dealer affiliations, describe the relationship between your firm and its broker/dealer.
6. Describe any past or pending regulatory action, litigation or other legal proceedings involving the firm or any registered employees and/or principals.
7. Describe your firm's liability insurance (e.g. Errors and Omissions, Fiduciary Liability, Fidelity Bonding) including dollar amounts your firm maintains to protect client assets?
8. Identify your firm's auditor, fund administrator, legal advisor, and any other service providers to the fund.
9. Describe your firm's internal controls regarding cash controls, valuation policies, risk management, and anti-fraud procedures. Has your firm undergone a SAS 70 or SSAE 16 review? If so, please summarize the key findings and any noted deficiencies.

### **III. INVESTMENT STRATEGY & PROCESS**

1. Describe your firm's investment philosophy regarding middle-market private debt and what significant factors influence your success with this asset class? What is considered to be the competitive advantage of this investment philosophy?
2. Describe your firm's due diligence regarding your deal sourcing and credit analysis, both qualitative & quantitative.

### **IV. PROPOSED FUND TERMS**

1. Provide the name of the fund/account being proposed and the investment vehicle being proposed (i.e. separate account, closed-end fund, etc.). Provide a term sheet on the specific product being proposed.
2. Provide anticipated portfolio characteristics including but not limited to: # of positions, average investment size, issuer EBITDA, maximum industry exposure, maximum non-US exposure, and maximum leverage employed.
3. Provide a breakdown of the fund's strategy composition target ranges. (senior secured 1<sup>st</sup> liens 25%-50%, 2<sup>nd</sup> liens 15%-20%, mezzanine 0%-15%, unitranche, etc.). Will the fund invest in distressed situations?
4. Provide a breakdown of the fund's geographic focus, industry diversification, and transaction type (Primaries, Direct Co-Investments, Secondaries, etc.).
5. What is the term of the fund, including any possible extensions? Identify the fund's investment period and its harvest period. How does your firm anticipate calling capital from their LP's?
6. What are your fund's target net IRR return goals? What is the Fund's targeted cash pay yield ranges? Are cash distributions intended to be paid quarterly, annually, or semi-annually?
7. Provide a detailed fee schedule regarding the fund you are proposing including management fees, carried interest and a preferred return, if applicable. Are management fees paid on invested capital or committed capital?

## V. Submission Information and Summary

### **Please submit your response to this RFP in the order as follows:**

1. Transmittal letter identifying this RFP, your firm, firm RFP contact and an affirmation that all documents and answers submitted are truthful and accurate.
2. RFP answers
3. Act 44 disclosure form completed in its entirety
4. The following 3 appendices in electronic form only listed below:
  - Appendix A: Form ADV Part 2A (**electronic copy only**)
  - Appendix B: Private Placement Memorandum of fund being proposed (**electronic copy only**)
  - Appendix C: Most recent pitch-book on proposed fund with prior fund(s) performance data (**electronic copy only**)

Please submit 1 original proposal of the complete RFP by 2 pm ET, Tuesday, October 25, 2016 to Jay Skezas, Manager as well as 1 original proposal to the Consultant using the addresses shown below. When submitting responses, please submit by e-mail all of the information identified above in a PDF document by using the email addresses of both parties below. Additionally, submit a hard copy response omitting Appendix A, B and C by mailing directly to both parties below:

**The Municipal Authority of  
Westmoreland County  
Jay Skezas, Manager  
124 Park and Pool Road  
New Stanton, PA 15672  
[jskezas@mawc.org](mailto:jskezas@mawc.org)**

**Morrison Fiduciary Advisors, Inc.  
Robert Bulas  
1405 McFarland Road  
Pittsburgh, PA 15216  
[rjb@morrisonadvisors.com](mailto:rjb@morrisonadvisors.com)**

#### **Projected RFP timeline:**

<b>RFP Issue Date:</b>	<b>Friday, September 30, 2016</b>
<b>RFP Due Date:</b>	<b>Tuesday, October 25, 2016 @ 2pm ET</b>
<b>Anticipated Award:</b>	<b>week of Monday, November 28, 2016</b>

To ensure a more efficient evaluation process, respondents should direct all inquiries regarding this RFP to Robert Bulas at Morrison Fiduciary Advisors via email only. Respondents should not contact Authority Officials directly. At any time during this RFP process, the Authority has the right to consider all factors and take any action to ensure the Fund obtains the best possible manager evaluation result. These Authority actions include the Authority's right to negotiate proposals received, amend the RFP process, accept additional proposals, consider information not contained in the original proposals and consider all factors in addition to price. The Authority appreciates your interest in serving the Plan and looks forward to your response.

## VI. Act 44 Disclosure

### ACT 44 DISCLOSURE FORM

#### THE PENSION PLAN FOR THE EMPLOYEES OF THE MUNICIPAL AUTHORITY OF WESTMORELAND COUNTY

**LIST OF MUNICIPAL OFFICIALS & EMPLOYEES OF THE REQUESTING MUNICIPAL ENTITY**

**APPLICANTS:** Certain questions on this Disclosure Form will refer to a *“List of Municipal Officials.”* To assist you in preparing your answers, you should consider the following names to be a complete list of pension system and municipal officials and relevant employees.

**MUNICIPALITY:** Enter below, a list of municipal officials that have any involvement in the administration or management of the pension system – Elected Officials, Appointed Officials and Employees, Board Members, or other Pension Committee Members (if applicable). Do not include employees that are not in a management position or serve on a pension committee or in a decision-making position relative to this pension system. If a category listed below is not applicable, so state.

Elected Officials:			
Name:	Title:	Name:	Title:
Employees or Appointed Officials:			
Name:	Title:	Name:	Title:
Chris Kerr	Resident Manager	Jay Skezas	Manager
Randy Roadman	Board Member	Bruce Robinson	Board Member
Jerome DeFabo, Sr.	Board Member	Dr. Jawdat Nikoula	Board Member
Vicki Vittone	Board Member		

#### APPLICANT STANDARD DISCLOSURE QUESTIONS

**APPLICANT INSTRUCTIONS:** In accordance with Chapter 7-A of Act 44, 2009, ALL applicants responding to this RFP must complete the following Standard Disclosure Form Questions.

1. Initial each question (except **Q1:**) to provide your response in the space provided to the right of each question.
2. **THEN:** provide explanations for all *“Yes”* or *“Applies”* responses **AND**, the information requested in **Q1: (mandatory)**, on a separate sheet(s) of paper with the question you are responding to clearly noted. Attach your response sheet to this Disclosure Form.

Required Act 44 Professional Services Contract Disclosure Information:

In accordance with Pennsylvania Act 44 of 2009, all Professional Services Contracts must disclose the following information in their Request for Proposal (RFP) response documents. All potential vendors should refer to PA Act 44 of 2009 and become familiar with their procedures and disclosures and then adhere to these standards throughout the RFP process.

1. Disclose the names and titles of each individual who will be providing professional services to the municipal pension system, including advisors or subcontractors and a description of the responsibilities of each individual and their resumes (as an exhibit).

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For any individual listed above:

a. Is the individual(s) listed above a current or former official or employee of the municipality entering into the contract: \_\_\_\_\_(No) , If Yes, please explain below.

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b. Is the individual(s) listed above a registered Federal or State lobbyist: \_\_\_\_\_(No) , If Yes, please explain below:

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2. Disclose the terms employment/compensation of any third party intermediary agent or lobbyist who will directly or indirectly communicate with a municipal pension system official(s) or employee(s) in connection with any investment transaction involving the potential vendor and the municipal pension system. \_\_\_\_\_(not applicable) , If applicable, please explain below:

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3. Disclose any person that enters into a professional services contract with a municipal pension system that has a direct financial, commercial, or business relationship with any of the municipal pension system officers or employees which controls the municipal pension system.

\_\_\_\_\_(not applicable) , If applicable, please explain:

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4. Disclose any apparent, potential or actual conflicts of interest of any person or entity who potentially enters into, or applies for, submits an offer or bid for, responds to a request for, or otherwise solicits, a proposal or a contract with the municipal pension system.

\_\_\_\_\_(not applicable) , If applicable, please explain:

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5. Disclose all contributions (political contributions and gifts) to which all of the following apply:

- a. A contribution was made after the Act's December 18, 2009 effective date.
- b. A contribution was made by an officer, director, executive-level employee, or owner of at least 5% of the potential vendor.
- c. The amount of the contribution was at least \$500 in aggregate.
- d. The contribution was made to a candidate for any public office serving in the Commonwealth of Pennsylvania or to an individual who holds that office.
- e. The contribution was made to a political committee of a candidate for public office in the Commonwealth or to an individual who holds that office.

\_\_\_\_\_(not applicable) , If applicable, please list the name and address of the contributor, the contributor's relationship to the potential vendor, the name, office and position of each person receiving a contribution, the amount of the contribution, and any gifts to an official or employee of the municipal pension system:

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**APPLICANT VERIFICATION**

I, \_\_\_\_\_, hereby state that I am the \_\_\_\_\_  
for (Name) (Position)

\_\_\_\_\_ and I am authorized to make this verification.  
(Contractor / Company Name)

I hereby verify that the facts set forth in the foregoing Act 44 Disclosure Form for RFP Applicants seeking to provide Professional Services to the Municipal Authority of Westmoreland County are true and correct to the best of my knowledge, information and belief. I also understand that knowingly making material misstatements or omissions in this form could subject the responding **Applicant** to the penalties in Section 705-A (e) of Act 44.

I understand that false statements herein are made subject to the penalties of 18 P.A.C.S. § 4904 relating to unsworn falsification to authorities.

\_\_\_\_\_  
Signature Date



### DEFINITIONS FOR THIS DISCLOSURE FORM

TERM:	DEFINITION:
<b>CONTRACTOR (ALSO – “APPLICANT”)</b>	<p>Any person, company, or other entity that receives payments, fees, or any other form of compensation from a municipal pension system in exchange for rendering professional services for the benefit of the municipal pension system.</p> <p><b><u>This term shall also Apply</u></b> to any Applicant who solicits, applies for, or responds to a Request for Proposal for the purpose of gaining a professional services contract.</p>
<b>SUBCONTRACTOR OR ADVISOR</b>	<p>Anyone who is paid a fee or receives compensation from a municipal pension system – directly or indirectly from or through a contractor.</p>
<b>AFFILIATED ENTITY</b>	<p>Any of the following:</p> <ol style="list-style-type: none"> <li>1. A subsidiary or holding company of a lobbying firm or other business entity owned in whole or in part by a lobbying firm.</li> <li>2. An organization recognized by the Internal Revenue Service as a tax-exempt organization under section 501(c) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 501 (c) established by a lobbyist or lobbying firm or an affiliated entity.</li> </ol>
<b>CONTRIBUTIONS</b>	<p>As defined in section 1621 of the act of June 3<sup>rd</sup>, 1937 (P.L. 1333, No. 320), known as the Pennsylvania Election Code.</p>
<b>POLITICAL COMMITTEE</b>	<p>As defined in section 1621 of the act of June 3<sup>rd</sup>, 1937 (P.L. 1333, No. 320), known as the Pennsylvania Election Code.</p>
<b>EXECUTIVE LEVEL EMPLOYEE</b>	<p><b><u>ANY employee or person or the person’s affiliated entity who:</u></b></p> <ol style="list-style-type: none"> <li>1. Can affect or influence the outcome of the person’s or affiliated entity’s actions, policies, or decisions relating to pensions and the conduct of business with a municipality or a municipal pension system; or</li> <li>2. Is directly involved in the implementation or development policies relating to pensions, investments, contracts or procurement or the conduct of business with a municipality or municipal pension system.</li> </ol>

<p><b>MUNICIPAL PENSION SYSTEM</b></p>	<p>Any qualifying pension plan, under Pennsylvania state law, for any municipality within the Commonwealth of Pennsylvania; includes the Pennsylvania Municipal Retirement System. <i>Example: the Combined Pension Plan for the City of Washington.</i></p>
<p><b>MUNICIPAL PENSION SYSTEM OFFICIALS AND EMPLOYEES; MUNICIPAL OFFICIALS AND EMPLOYEES</b></p>	<p><b><u>Specifically</u></b>, those listed in the preceding section titled: <b><i>“List of Municipal Officials &amp; Employees for the Requesting Municipality:”</i></b> and / or whenever applicable, may include <u>any</u> employee of the <b>Requesting Municipality</b>.</p>
<p><b>PROFESSIONAL SERVICES CONTRACT</b></p>	<p>A contract to which the municipal pension system is a party to that is: (1) for the purchase of professional services including investment services, legal services, real estate services, and other consulting services; and, (2) not subject to a requirement that the lowest bid be accepted.</p>

**INVESTMENT POLICY STATEMENT  
FOR**

**PENSION PLAN FOR THE EMPLOYEES OF  
THE MUNICIPAL AUTHORITY OF  
WESTMORELAND COUNTY**

**PREPARED IN MAY 2016**

Prepared by:

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This Policy was prepared by Morrison Fiduciary Advisors expressly for client use. Any use of this document for purposes other than use by Morrison clients requires written approval from Morrison Fiduciary Advisors.

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## **I. INTRODUCTION**

### **1. Purpose of this Investment Policy Statement**

This investment policy statement outlines the goals and investment objectives of the Pension Plan for the Employees of the Municipal Authority of Westmoreland County (the “Fund”). This policy statement identifies the operating procedures for the Fund and its agents, specifies the target asset allocation policy, establishes guidelines for the selection of investments, identifies permissible securities, specifies criteria for evaluating investment performance and addresses numerous administrative issues.

### **2. Investment Objective**

The funding obligations of the Fund are long term in nature and the investment of the Fund assets should also have a long term focus. The investment objectives for the Fund’s assets are to:

- Achieve a positive rate of return over the long term sufficient to meet the Fund’s actuarial interest rate as determined by the actuary.
- Provide for the payment of benefit obligations and expenses in perpetuity in a secure and prudent fashion.
- Achieve a rate of return after adjusting for inflation sufficient to preserve the purchasing power of the Fund assets.
- Maintain a prudent risk level that balances growth with the need to preserve capital.
- Diversify the Fund investments to minimize the risk of large losses or excessive fluctuations in market value from year to year.

### **3. General Background**

The Fund is governmental defined benefit pension plan. As of May 2016, the Fund assets were approximately \$47mm as of 3-31-16 and the plan covers approximately 450 total lives. The Fund was under-funded as of 12/31/2013.

The Fund is governed by the “Prudent Man Rule” which requires the Fund be managed with the care, skill, prudence and diligence that a prudent man familiar with such matters would use in like circumstances. All of the Fund’s representatives are governed by this rule and all professional services provided to the Fund must be performed within these guidelines.

## II. RESPONSIBILITIES OF THE FUND'S REPRESENTATIVES

1. The Fund is governed by the Municipal Authority of Westmoreland County Board. The Board will have the following responsibilities:

- Approve the Investment Policy Statement, establish asset allocation guidelines, execute vendor contracts, monitor investment performance and review professional fees.
- Delegate fiduciary responsibilities and investment discretion to professional advisor(s) in a prudent and responsible manner.
- Authorize the Board's Chairman and Board Secretary to act as an authorized representative of the Board.
- Designate the Business Manager to act as primary contact for Pension Fund communications.

2. The **Investment Advisor** (the "Advisor") retained by the Board will have the following responsibilities:

- Assist in developing the Investment Policy Statement and recommend the asset allocation strategy and investment structure.
- Facilitate communication between the Board, Authority Management and vendors for the Fund.
- Provide quarterly performance measurement reporting and assess organizational issues of the Fund Investments. Report on capital markets with regard to investment trends and portfolio management opportunities. Report in a straightforward manner sufficient to serve as the Board's primary quarterly evaluation.
- Implement, adjust and rebalance the Fund's investments with full discretion within asset allocation guidelines approved by the Board (see Section IV).
- Serve the Fund as a Fiduciary and avoid conflicts of interest by prohibiting the acceptance of any additional sources of revenues (brokerage, commissions, asset management, sale of research, marketing, etc.). The Advisor to the Fund should be independent of all other vendor services of the Fund.

### III. INVESTMENT GUIDELINES

The Trustees recognize the complexity of achieving the Fund's investment objectives because of the lack of predictability inherent in the capital markets. The Fund's current financial condition and risk tolerance permit the Fund to experience interim fluctuations in market value in order to achieve long-term objectives.

The Trustees generally prefer investment mutual funds with active investment styles that seek to achieve investment returns exceeding market indexes over longer periods of time but will use index funds when deemed competitive with actively managed investment strategies on an after fee basis.

The Fund's investments will be broadly diversified to minimize the risk of substantial loss as measured by a percentage of the Fund's assets. The Trustees expect that Fund assets will remain as fully invested as practical and will refrain from short-term market timing.

1. The following types of investments are prohibited for the Fund:

- Non-listed or non-marketable securities.
- Futures, options, margins, warrants, SWAPs and short sale transactions.
- Leveraged and derivative transactions.
- Direct purchase of oil, gas, timber or other natural resources.
- Private equity and venture capital.

2. Domestic equity guidelines will be as follows:

- Equity funds should be well diversified to avoid undue exposure to any single economic sector, industry group or individual security.
- No more than 10% of the total Fund equity holdings shall be invested in the securities of any one issuer.
- Domestic equity funds will not hold securities that are not representative of their investment style such as bonds, convertible bonds, preferred stock or leveraged instruments.

3. Foreign equity guidelines will be as follows:

- Foreign equity funds will be well diversified to avoid undue exposure to any single economic sector, industry group or individual security.
- Foreign equity funds will limit holdings of emerging market securities to 20% of the Fund's equity holdings.

- No more than 10% of the Fund's equity holdings shall be invested in the securities of any one issuer (based on market value cost at purchase).
- Foreign equity Funds will not hold securities that are not representative of their investment style such as bonds, convertible bonds, preferred stock or leveraged instruments.

4. Fixed income guidelines will be as follows:

- Investments in any one issuer (based on market value) will not exceed 10% of the Fund's fixed income assets. No limitations are placed on investments in U. S. Government guaranteed obligations and fully backed Federal Agency obligations.
- Generally, the fixed income assets held by the Fund must maintain a rating of investment grade or better by Moody's or Standard & Poor's. But investments in high yield fixed income securities with below investment grade ratings is permissible for up to 10% of the Total Fund.
- Fixed income Funds will not hold securities that are not representative of their investment style (such as stocks, convertible bonds, preferred stock, or leveraged instruments, etc.).

#### **IV. ASSET ALLOCATION**

The Fund will be invested consistent with an overall asset allocation strategy. This strategy identifies a portfolio structure and sets a long term percentage target for the amount of the Fund's assets that are to be invested in each asset class. Numerous asset classes (i.e. large cap equities, small cap equities, foreign equities, fixed income, real estate and other Trustee approved asset classes) will be considered.

The Advisor shall consistently (at least monthly) monitor the Fund to insure that the assets of the Fund are invested in accordance with the asset allocation model shown below. The Advisor is authorized with full discretion to reallocate assets within the ranges identified for each asset class as defined by this Board approved Policy Statement.

It will be policy to have the assets of the Fund invested in accordance with the following asset allocation model using the indicated performance benchmarks as a guide for investment style.



<b>Asset Class</b>	<b>Target</b>	<b>Range</b>	<b>Benchmark Indexes</b>
<b>Total Plan</b>			40% S&P 500/10% Russell 2000/10% MSCI ACWI ex. US/ /40% Barclay's Aggregate
<b>Equities</b>	60 %	+/-15%	
Large Cap Equity	40 %	+/-10%	S&P 500
Small/Mid Cap Equities	10 %	+/-5%	Russell 2000
Foreign Equity	10 %	+/-5%	MSCI ACWI ex. US
<b>Fixed Income</b>	40 %	+/-10%	
Intermediate Fixed	30 %	+/-10%	Barclay's Aggregate
High Yield	10 %	+/-10%	Barclay's High Yield
<b>Alternatives</b>	<b>0 %</b>	<b>+/-10%</b>	<b>To Be Determined</b>

#### Quarterly Return Analysis

Investment performance results of the total Fund and the individual investments will be measured on at least a quarterly basis. The investment performance of the total Fund and each investment will be measured against specific and appropriate benchmarks and the performance is expected to exceed these benchmarks after fees. The investment performance of each investment will also be measured against a representative peer universe of professionally managed portfolios with similar investment objectives.

All investment performance will be reported in conformance with the CFA Institute's Global Investment Performance Standards (GIPS).

#### Review of Performance Fees

At least annually, the Fund expenses will be analyzed by the Advisor and reported to the Board.

