



SCERS

SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Investment Accounting System

Request for Information (RFI)



Investment Accounting System Request for Information (RFI)

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IMPORTANT NOTICE

No contract will be awarded as a result of this RFI. The results of this exercise and the associated business case will be presented to the Board of Retirement and a decision may or may not be made to proceed with a formal procurement under SCERS' procedures.

The cost for developing a response to this RFI is entirely the responder's responsibility and shall not be chargeable to SCERS.



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Introduction

Sacramento County Employees' Retirement System (SCERS) is a cost-sharing multiple-employer public employee retirement system, enacted and administered in accordance with the provisions of the County Employees' Retirement Law of 1937 (California Government Code Section 31450, et seq.) ("1937 Act") and the California Public Employees' Pension Reform Act of 2013 ("CalPEPRA"). Since its establishment by the Sacramento County Board of Supervisors in 1941, SCERS has provided retirement, disability, and survivors' benefits to eligible participants of the System. Under Article XVI, Section 17 of the Constitution of the State of California, the SCERS Board of Retirement is vested with plenary authority and fiduciary responsibility for the investment of monies and the administration of the System. Together, the provisions of the State Constitution and the 1937 Act establish SCERS as a separate and independent governmental entity from the public employers that participate in SCERS. At June 30, 2017, the County of Sacramento; Superior Court of California, County of Sacramento; and eleven Special Districts participated in SCERS.

As of June 30, 2017, SCERS' fiduciary net position totaled \$8.6 billion, with fair value of investments of \$8.9 billion. The net position is used exclusively for the benefit of plan participants and their beneficiaries. SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio, which is designed to provide an optimal mix of asset classes with return expectations that correspond to expected benefit liabilities. SCERS' investment program is structured around a strategic asset allocation model established by SCERS' Board with the assistance of SCERS' investment staff, general investment consultant Verus, alternative assets consultant Cliffwater LLC, and real estate consultant Townsend Holdings LLC.

SCERS utilizes external investment managers to invest the System's assets. SCERS' assets are invested in over 130 investment strategies across the following categories:

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| Asset Category/Asset Class | New Target Allocation |
|------------------------------|--------------------------|
| Growth | 59.0% |
| Domestic Equity | 21.0 |
| International Equity | 20.0 |
| Private Equity | 9.0 |
| Public Credit | 2.0 |
| Private Credit | 4.0 |
| Growth Absolute Return | 3.0 |
| Diversifying | 25.0 |
| Core/Core Plus Fixed Income | 10.0 |
| US Treasury | 5.0 |
| Global Fixed Income | 3.0 |
| Diversifying Absolute Return | 7.0 |
| Real Return | 16.0 |
| Real Estate | 7.0 |
| Real Assets | 7.0 |
| Commodities | 2.0 |
| Opportunities | 0.0 |
| | 100.0% |

SCERS' custodial bank is State Street Bank and Trust (State Street). Management of SCERS is responsible for establishing and maintaining internal controls designed to ensure that the System's assets are protected from loss, theft, or misuse. SCERS' management is also responsible for the accuracy, completeness, and fair presentation of information, and all disclosures in the comprehensive annual financial report, in other periodical financial reports, and in the System's records.

Current State Process and Organization

SCERS' investment staff consists of a Chief Investment Officer, a Deputy Chief Investment Officer, and two Investment Officers. In addition to providing assistance to the Board in establishing the asset allocation model, SCERS' investment staff and consultants assist in developing investment policy statements; conduct searches for and recommend the selection of investment managers; monitor investment manager performance and compliance; advise on developments in the investment markets; and analyze and develop recommendations for possible tactical adjustments and new investment initiatives.

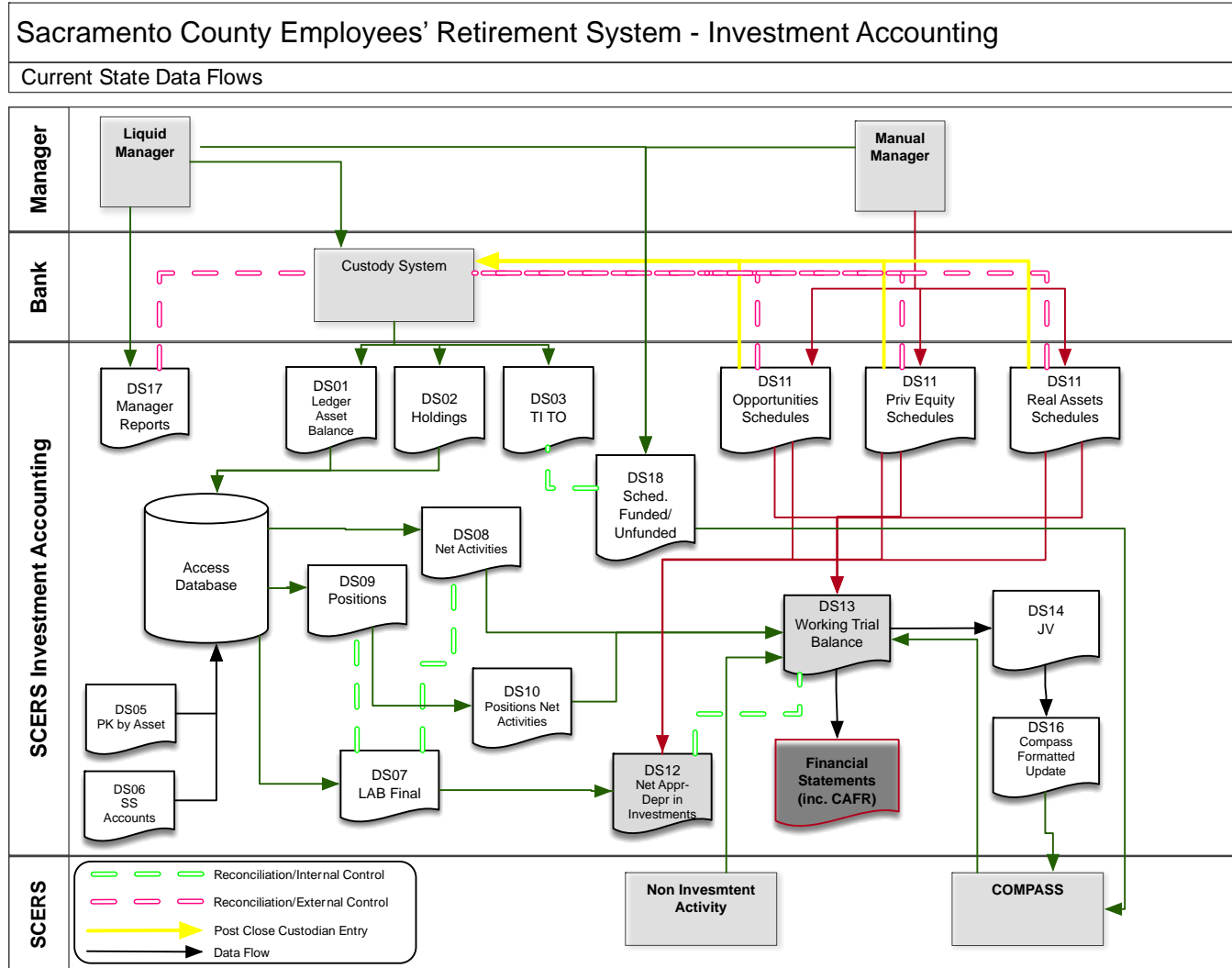
SCERS's accounting staff is consisted of a Chief Operations Officer, a Senior Accounting Manager, two Accounting Managers, a Senior Accountant, two Accountants, an Accounting Technician, and a Senior Account Clerk. The accounting staff is responsible for all aspect of SCERS' accounting needs, including accounting for externally managed investment assets.

The following diagram provides a representation of SCERS' current state investment accounting data flows.

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Current System Data Flow



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As indicated in the preceding diagram, SCERS investment managers are either “Liquid”, i.e. generally invested in publicly marketable assets, primarily equities and fixed income; or they are “Manual”, i.e. generally invested in privately marketed assets, primarily partnerships. The terms “public market” and “private market” are also used to describe these managers and the terms are generally synonymous with “Liquid” and “Manual”. The term “Manual” was initially used to indicate that the data capture process for these managers was manual and involved SCERS staff manually entering data into spreadsheets.

The process is divided horizontally by organization.

Public market (Liquid) manager activity flows to the custodian, private market (Manual) activity is collected directly by SCERS Investment Accounting.

The custodian system is and will remain SCERS’ official book of record.

For public market assets two primary files are collected monthly. These contain ledger balances (DS01) and holdings (DS02). These files are consolidated and manipulated in an MS Access database from which is exported a series of spreadsheets that flow into the financial statements and ledger entries.

For private market (Manual) assets, data is collected from managers and entered into spreadsheets. Currently, the asset classes for which this occurs are Private Equity, Private Credit, Real Assets, and Opportunities.

There are also manual entries for non-core Real Estate funds. The consolidated output of these schedules is fed into the financial statements and ledger entries. Once the process is complete, SCERS informs the custodian of the correct entries for private market funds and the custodian updates its records accordingly.

SCERS financial system comprises an instance of SAP that is run by Sacramento County (COMPASS). SCERS has very little control over the operation or configuration of this instance of SAP. Accordingly a series of spreadsheets including Net Appreciation Depreciation of Investments (DS12) and the Working Trial Balance (DS13) are used to collect, manage and adjust this information to SCERS requirements before being used to produce the CAFR and other financial statements, and subsequently to prepare the journal entries that flow to COMPASS. These spreadsheets also collect non-investment information (resides in COMPASS) as well as investment information.

In essence, SCERS’ financial system consists of the entire set of tools including both COMPASS and these spreadsheets. These spreadsheets, until the system is replaced (as is planned),



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should be viewed as the primary interface to SCERS' financial system. Once SCERS acquires its own financial system, the Investment Accounting System (IAS) will be able to interface in a more direct manner with the corporate general ledger.

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Request for Information

SCERS is seeking to manage operational risk, improve oversight, and position for growth by improving its investment accounting infrastructure. SCERS recently conducted an exercise to analyze its investment accounting processes and identify opportunities for improvement. SCERS determined that its preferred solution is to seek a partnership with a vendor that can offer a managed services solution that provides investment accounting for all its assets as identified in the background information included in the appendix to this Request for Information (RFI).

SCERS understands the term “managed services investment accounting solution” as meaning that an investment accounting platform vendor provides operational and accounting services to ensure that all data from managers and other sources is captured, entered in the system, reconciled between the custodian and SCERS managers, available for reporting, and for general ledger data to be available to post to SCERS’ general ledger.

In the course of doing the analysis for this RFI, SCERS noted that many systems provide rich functionality for performance and analytics. SCERS wishes to emphasize to vendors that its primary focus is to provide a robust investment accounting infrastructure that enables financial reporting and posting to the general ledger to be accomplished efficiently and with minimum risk. Other capabilities such as performance reporting may be of interest, but they are not SCERS’ primary goal in undertaking this exercise.

The purpose of this request for information is to solicit statements of interest, description of capabilities, implementation timeframe and order of magnitude costs from respondents that are interested in and are capable of providing a solution that meets SCERS requirements.

Respondents are asked to provide SCERS with the following:

- A description of the investment accounting platform.
- A description of the managed services that the vendor provides to clients.
- A description and supporting diagrams that demonstrate how the vendor’s platform will support SCERS’ investment operations and provide the required accounting information.
- Responses to the general questions in the attached spreadsheet.
- Responses to the functional and non-functional requirements identified in the attached spreadsheet, stating the extent to which the vendor supports the requirement or not.
- Order of magnitude pricing using the spreadsheet template provided.
- Recommendations for additional information to be included in a Request for Proposals (RFP) to facilitate vendor understanding and project planning

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Process and Calendar

The process for the RFI exercise is as follows:

1. Receive and review RFI responses and select vendors for demonstrations and in-depth platform review
2. Optionally conduct vendor demonstrations where SCERS will invite chosen respondents to provide a hands-on demonstration in some detail of how their platform might enable SCERS to meet its investment accounting needs
3. Evaluate results of this RFI, create a business case and present the results to the Board of Retirement
4. Prepare and issue a Request for Proposals, subject to Board approval

No contract will be awarded as a result of this RFI. The results of this exercise and the associated business case will be presented to the Board of Retirement and a decision may or may not be made to proceed with a formal procurement under SCERS' procedures.

The cost for developing a response to this RFI is entirely the responder's responsibility and shall not be chargeable to SCERS.

Key dates (subject to revision) are as follows:

| Step | Target Dates |
|------------------------|--|
| Issue RFI | May 1 |
| Vendor question period | Email questions received before May 21 will be responded to. |
| Vendor responses due | May 31 |

Responses and questions may be submitted by email to SCERS-IT@saccounty.net or by mail to:

John Lindley
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

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Requirements

Requirements are identified in the attached spreadsheet. SCERS invites vendors to complete the spreadsheet as fully as possible. In two of the tabs, specific response codes are identified to allow respondents to indicate if the solution fully meets, partially meets or does not meet SCERS functional and non-functional needs. Respondents are invited and encouraged to provide additional detail and clarification where necessary. Where additional material is provided, please ensure that such information can be cross referenced back to the requirements spreadsheet.

Conclusion

Thank you for your participation in this RFI process. SCERS looks forward to receiving responses and engaging with vendors in assessing their solutions.

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APPENDIX: Resources

SCERS' financial and investment information is available at SCERS' website:

<http://www.retirement.saccounty.net/Pages/FinancialInformation.aspx>

Links may be found to the Comprehensive Annual Financial Report (CAFR), The Investment Year in Review, and the Investment Performance Report

APPENDIX: Background Information

Funds by Account Types are identified in the following table.¹

| Asset Type (per CAFR) | Commingled Fund | LLC ² | LP | Separate Account | Total |
|-----------------------------|--------------------|------------------|-----------|---------------------|------------|
| Absolute Return | 14 | | | | 14 |
| Cash Account | 1 | | | | 1 |
| Domestic Equity | 1 | | | 9 | 10 |
| Fixed Income | | 1 | | 4 | 5 |
| Futures Overlay | | | | 1 | 1 |
| International Equity | 5 | | | 5 | 10 |
| Opportunities | | | 14 | | 14 |
| Private Equity | | | 47 | | 47 |
| Real Assets | 14 | 5 | 11 | | 30 |
| Total | 35 | 6 | 72 | 19 | 132 |

The Custodian, State Street Bank, is the official Book of Record. Record Keeping and Accounting for Separate Accounts occurs at the security level, and for all other account types it is at the fund level. SCERS is subject to GASB accounting standards and reports its investments on a fair value basis per GASB 72.

¹ Per 3/31/2017 Financial Statement Data

² LLC Accounts are situations where generally SCERS is the sole investor, they may invest in a variety of asset types and they may have fee structures that vary from a basis point fee based on average asset balances to a fee that resembles a partnership fee structure.

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SCERS recently developed an enhanced asset allocation model with its General Investment Consultant which divides its assets into the following categories³:

| Asset Category | Asset Class | Number of Funds |
|--------------------------|------------------------------|-----------------|
| Growth | | |
| | Domestic Equity | 10 |
| | International Equity | 10 |
| | Private Equity | 38 |
| | Public Credit | 1 |
| | Private Credit | 4 |
| | Growth Absolute Return | 9 |
| Diversifying | | |
| | Core/Core Plus Fixed | 3 |
| | US Treasury | 0 |
| | Global Fixed Income | 1 |
| | Diversifying Absolute Return | 7 |
| Real Return | | |
| | Real Estate | 23 |
| | Real Assets | 14 |
| | Commodities | 2 |
| | TIPS | 0 |
| Opportunities | | |
| | Opportunities | 1 |
| Total⁴ | | 124 |

SCERS uses a State Street Short Term Investment Fund (STIF) to carry uninvested cash balances. Managers generally do not carry cash.

In order to manage to allocation SCERS employs an overlay strategy managed by State Street Global Advisors. This uses derivatives and a number of proxies to manage exposure to asset allocation benchmarks. There is a securities lending program administered by State Street Bank.

Managers provide information about investment activity to the custodian. Monthly ledger files and reports are provided to SCERS. SCERS undertakes a quarterly reconciliation and accounting process which is detailed in the following section.

³ per 6/30/2017 Investment Performance Review

⁴ The difference in totals is comprised of the managers added and discontinued and in differences in the way some funds are combined into a single line item in the Investment Performance Review.

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Transaction volumes, which are approximate, and extrapolated on a per annum basis from data obtained from custodian data, are identified in the following table⁵:

| Asset Type | Buys & Sells ⁶ | Redemptions (Paydowns Maturities etc.) | Cancel ⁷ | Adjustments ⁸ | Estimated Income Transactions | Estimated Expense Transactions ⁹ |
|-----------------------------|---------------------------|--|---------------------|--------------------------|-------------------------------|---|
| Absolute Return | 25 | 0 | 3 | 0 | 2 | 0 |
| Cash Account | 299 | 0 | 1 | 0 | 24 | 6 |
| Domestic Equity | 11,254 | 0 | 18 | 17 | 440 | 54 |
| Fixed Income | 13,263 | 9,341 | 2,059 | 1,239 | 946 | 18 |
| Futures Overlay | 5,683 | 3 | 72 | 0 | 266 | 4 |
| International Equity | 19,869 | 0 | 47 | 2 | 882 | 34 |
| Private Market Funds | 4,804 ¹⁰ | 0 | 278 | 6994 | 164 | 216 |
| Grand Total | 55,197 | 9,344 | 2,478 | 8,252 | 2,724 | 332 |

⁵ Equity and Fixed Income volumes are at the security level; all others are at the fund level

⁶ Includes Contributions and Withdrawals from Funds

⁷ Assumed to be mainly related to Factors on MBS and Structured Products

⁸ Assumed to be corporate and municipal sinking fund payments, calls and prepayments

⁹ Primarily fee payments

¹⁰ Over 4,000 are transactions in Real Assets which include separate accounts that trade listed securities as part of the overlay program

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APPENDIX: Issue Types

| Issue Type | Count of Positions | Sum of Base Market Value |
|-----------------------------|--------------------|--------------------------|
| COMMON STOCK | 1,849 | \$3,381,978,876 |
| COMMON STOCK UNIT | 8 | \$11,313,180 |
| CORPORATE BONDS | 521 | \$367,524,824 |
| CREDIT DEFAULT SWAP | 6 | -\$408,963 |
| CURRENCY SWAP | 4 | -\$82,231 |
| DEPOSITORY RECEIPTS | 18 | \$18,534,163 |
| FEDERAL HOME LOAN MORTGAGES | 1 | \$582,528 |
| FLOATING NOTES | 4 | \$425,705,305 |
| FOREIGN CURRENCY | 112 | \$9,506,887 |
| FUT-FIXED INCOME | 16 | \$0 |
| FUT-INDEX | 16 | \$0 |
| GNMA/FHA | 960 | \$544,841,830 |
| INTEREST RATE SWAP | 158 | \$935,529 |
| LMTD PARTNRSHP UNTS | 151 | \$2,374,506,729 |
| MCH(30/360,QUARTERLY,FIXED | 17 | \$12,705,689 |
| MUTUAL FUNDS | 15 | \$771,694,348 |
| NON-SECY ASSET-STOCK | 20 | \$148,387,820 |
| OP-FOREIGN CURRENCY | 9 | \$58,419 |
| OP-FUTURE | 5 | \$45,219 |
| PREFERRED STOCK | 1 | \$408,300 |
| REAL ESTATE INV TRST | 205 | \$306,566,362 |
| RIGHTS | 2 | \$0 |
| STIF/SSB REPO | 22 | \$418,462,390 |
| US T-NOTES/BONDS | 190 | \$330,783,038 |
| WARRANTS | 2 | \$4,235 |
| ZERO COUPON BONDS | 1 | \$393,292 |
| Grand Total | 4,313 | \$9,124,447,769 |

Data collected from custodian as of 9/30/2017.

Data are approximate and are provided solely for the purpose of assisting vendors in understanding the composition of SCERS' holdings.