

News and Analysis

News | Pension Plans

Iowa receives wide interest in 'unconventional' alpha search

The \$31bn system received more than 700 responses to an RFP that takes a more holistic view of risk and alpha in its public markets portfolio

Dietrich Knauth | 29 Jan 2018

The **Iowa Public Employees Retirement System** (IPERS) has received wide interest in its search for active management that can show high performance regardless of the manager's asset class or benchmark, collecting more than 700 proposals by the December due date.

The \$31bn system is using the unconventional RFP to help it take a more holistic view of its public markets portfolio options and identify top-performing managers across a range of traditional asset class "silos." IPERS is open to a wide range of investments that are primarily comprised of liquid, publicly traded securities, looking for strategies that show "persistent risk-adjusted alphas that are uncorrelated with IPERS' strategic asset allocation, liabilities, and the alphas of other public market products within the IPERS investment program." It issued a request for proposals in October, with assistance from **Wilshire Consulting**, and proposals were due December 8. (*MMR*, **10/16/2017**)

The response has been overwhelming, with more than 700 offers, according to IPERS spokeswoman **Judy Akre**. All 25 of IPERS' current active public markets managers and products were automatically included in the search, Akre said.

No decisions have been made yet, and IPERS has not yet set a timeline for the next stages of the search.

"There is no established timeline," Akre told *MMR*. "We are still evaluating the manager responses."

IPERS also has not set a firm target for the amount it would invest through the RFP, or the number of managers it would hire, Akre said.

While the IPERS RFP is more benchmark-agnostic than most, it is not completely open-ended, either. IPERS is looking for strategies with \$400m in assets under management, with seven years of performance history, and that can be benchmarked against a well-known index. To help IPERS evaluate the excess returns that managers are producing in relation to their benchmark, the RFP asked for a significant amount of data that will be used in the evaluation.

"We do anticipate potentially a large universe of managers that may fit, so there is a data component," **Ali Kazemi**, managing director at Wilshire, told *MMR* in October. "A lot of the correlation metrics, risk metrics, that we use will be more robust if we have a larger time period to draw from."

The RFP will help IPERS "rethink its active public market portfolios from the ground up," IPERS chief risk officer **Sriram Lakshminarayanan** told *MMR*. The fund is seeking to first identify managers that have demonstrated persistent alpha, low alpha correlation with equity drawdowns, and low alpha correlation with other managers within the IPERS investment program. IPERS will allocate however much capital to the alpha pool that is necessary to achieve the 100bps of risk at the total fund level, whether that ends up being 20% of the portfolio or 80%, Lakshminarayanan told *MMR's* sister title *HFM InvestHedge*. (*MMR*, **1/12/2018**).

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