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Iowa launches unconventional RFP to seek alpha unconstrained by asset class

The \$31bn fund looks to identify top-performing managers across a range of traditional asset class categories

Dietrich Knauth | 16 Oct 2017

The **Iowa Public Employees Retirement System** (IPERS) has issued a request for proposals for active investment management services, saying that it will seek top-performing managers regardless of the manager's asset class or benchmark.

The \$31bn system is looking for a separately managed account that gives the manager full discretion to actively implement their investment selection and portfolio construction process, as long as the investments are primarily comprised of liquid, publicly traded securities. IPERS is also looking for public market investment products 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."

Wilshire Consulting, which is assisting IPERS with the search, said that the unconventional RFP will help the pension fund take a more holistic view of its public markets portfolio options and identify top-performing managers across a range of traditional asset class “silos.”

“This search is unique in the way that IPERS is approaching it, which is taking a deeper dive into the excess returns that managers are producing in relation to their benchmark,” **Ali Kazemi**, managing director at Wilshire, told *MMR*.

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 benchmarked against a well-known index.

Insisting on a lengthy track record will help IPERS ensure that it has enough data to be confident that it is truly partnering with top managers, Kazemi said.

“We do anticipate potentially a large universe of managers that may fit, so there is a data component,” Kazemi said. “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.”

IPERS Chief Risk Officer **Sriram Lakshminarayanan** told *MMR* that the pension fund had not set a firm target for the amount it would invest through the RFP, or the number of managers it would hire.

“This RFP helps IPERS rethink its active public market portfolios from the ground up,” Lakshminarayanan said. “We are targeting a specific active risk budget with specific qualities of alpha.”

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.

“This approach separates beta and alpha decisions,” IPERS CIO **Karl Koch** said in a statement. “We will evaluate all types of public market active strategies at the same time. Each strategy will be evaluated in terms of how

it can help IPERS meet its return objectives within our active risk budget – not just how well the strategy has performed against its asset class benchmark.”

Proposals, along with detailed return data, are due by December 8. IPERS plans to conduct the search in three phases, starting with a quantitative evaluation of investment metrics, followed by a qualitative assessment of the top scoring firms and then by additional due diligence.

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