

NC State Investment Fund, Inc.

Private Asset Advisor RFP

RFP Responses as of 10/31/2016

- 1. Is the focus of this RFP on the private equity outside of UNCMC? If so, do you foresee moving some investments with UNCMC back to NC State's name?**

While the focus of this RFP is on expanding NC State's legacy private equity portfolio, UNCMC's private assets need to be considered. As a result of committing additional funds to NC State's private portfolio, the asset allocation will naturally shift which will increase assets in NC State's name.

- 2. What is the difference between UNCMC and UNCIF?**

UNC Management Company (UNCMC) is the manager of the UNC General Administration System Fund which is called UNC Investment Fund (UNCIF). Only UNC General Administration Campuses are able to invest in UNCIF.

- 3. What is NC State Investment Fund's target % allocation to private assets? How is the target % allocation split between Private Equity, Real Estate and Energy/Natural Resources?**

Asset Class	Strategic Target	Tactical Range
Private Equity	18%	14-22%
Real Estate	8%	5-12%
Energy and Natural Resources	7%	5-10%

- 4. What is the target annual commitment pace to private assets going forward? What portion of this annual commitment will be direct fund commitments vs. through UNCIF?**

In partnership with the private advisor, we hope to develop and design a placing plan that incorporates our current (and future) commitments of our legacy private portfolio and our intent to invest with funds directly.

- 5. Is NC State Investment Fund open to hiring an advisor that only covers Private Equity (buyout, venture, etc.), Private Debt and Energy/Oil & Gas?**

The goal in building the direct private asset program is to develop a well-diversified portfolio. While it is preferable for the advisor to have Real Estate experience, it is not a requirement.

6. Approximately what amount/level of assets is the subject of this RFP? The figures on pages 4 and 5 of your RFP document don't seem to tie; please explain.

Page 5 breaks out the private assets portfolio within UNCIF listed on page 4. This was provided to give a complete picture on the amount of illiquid assets in our Fund. The subject of this RFP is to build out an internal private asset portfolio while considering the exposure to UNCIF's private portfolio. The consultant is not responsible for advising on UNCIF's private portfolio.

7. Do you or have you used any investment consultants? If so, please tell us which firms and for how long you have used each one and what is/was the asset class/scope of their work for you?

In the past we have used Callan Associates for general consulting services. The relationship with this firm lasted 7 years from 1998-2005.

8. Are you committed to hiring a non-discretionary consultant for this mandate or might you outsource private markets asset management to an outsourced CIO-type firm (i.e. a discretionary manager of some kind)?

We do not desire to hire an outsourced CIO for this mandate and are looking to partner with a non-discretionary consultant.

9. What is the Fund's target allocation to private assets (% of the Fund)? Is there a current Investment Policy and pacing plan in place?

Please see the answer to Question 3 for the Fund's target allocation to private assets. Regarding the investment policy and pacing plan, we are hoping to develop this with the consultant.

10. Over what time period do you expect to achieve this target?

Traditionally it would take 5-7 years to achieve the fully funded target allocation. However, we would want to work with our consultant to properly decide on an appropriate time line.

11. Within Private Assets do you have a desired target mix of private equity, venture capital, real estate, and ENR investments?

Please see the answer to Question 3 for the Fund's target mix of private assets.

12. How many individual fund commitments do you expect to make annually?

The goal is to partner with the consultant to develop the specific number of commitments to properly diversify by vintage, type, and manager.

- 13. Going forward, will all new investments be made directly with individual funds, or do you expect there to be a mix of direct and fund-of-funds investments for future investments?**

It is the goal of the program to move away from fund-of-fund investment vehicles.

- 14. Will the consultant be expected to monitor all legacy investments?**

Legacy funds will not require ongoing monitoring as described under Portfolio Monitoring. All of these funds are in harvest mode.

- 15. Would the consultant need to review all cash flows and provide an expense break down on a look-through basis for legacy fund-of-funds investments, or only for new direct investments?**

This will only need to be provided for new direct investments.

- 16. Would the consultant need to provide company level summary performance data on a look-through basis for legacy fund-of-funds investments, or only for new direct investments?**

This will only need to be provided for new direct investments.

- 17. Do you expect the consultant to attend annual meetings for legacy investments?**

We do not expect the consultant to attend annual meetings for legacy investments.

- 18. What is the role of the consultant with regards to monitoring legacy co-investments and assistance with sourcing, due diligence, and monitoring of future co-investments?**

The consultant will not be responsible for monitoring co-investments of our legacy investments; however, would need to be considered for asset allocation purposes to ensure proper diversification. NC State will be looking to participate in co-investment opportunities in the future with the assistance of the consultant using the same attention to detail as will be used with direct investments in private asset managers.

- 19. Since the consulting services agreement has not been finalized and we have questions about the desired scope of services, under Section C (Execution of Proposal) can the language be changed to “That the potential Contractor agrees to the conditions as set forth in the agreed-upon Consulting Services Contract with no exceptions”?**

Yes, as set forth in the agreed-upon consulting services contract.

20. What is the total amount of assets to be included under this mandate?

Our initial plan is to have approximately \$100 million in commitments within the first 4 years with smaller commitments in future years to maintain a self-funded private asset program.

21. How much does NCSIF anticipate committing to new private funds on an annual basis under this relationship, and through all relationships?

See question #20. In addition, there will be no more commitments to NCSIF's legacy portfolio.

22. Could we receive more detail regarding the number of funds and specific managers currently in the portfolios?

Following is NC State's legacy private portfolio information as of 6/30/16.

Investment Name	Type	Vintage Yr	Strategy	Commitment	Funded
SEI Global PE Fund II	Fund of Funds	2008	Diversified	\$ 11,500,000	\$ 8,189,705
European Corp Fin III Pooled	Fund of Funds	2006	Buyout	\$ 4,687,500	\$ 4,337,688
US Venture Capital III Pooled	Fund of Funds	2006	VC	\$ 4,940,000	\$ 4,870,112
US Corp Finance III Pooled	Fund of Funds	2006	Buyout	\$ 8,625,000	\$ 8,567,785
US Corp Finance III Direct	Co-investment	2006	Buyout	\$ 1,375,000	\$ 1,275,671
European Corp Fin III Direct	Co-investment	2006	Buyout	\$ 312,500	\$ 219,715
US Venture Capital III Direct	Co-investment	2008	VC	\$ 60,000	\$ 39,465
BlackRock Diversified Private Equity Program III	Fund of Funds	2006	Diversified	\$ 10,000,000	\$ 8,800,000
				<u>\$ 41,500,000</u>	<u>\$ 36,300,141</u>

23. What is included in the "Wind Down Managers RE" category listed at the bottom of page five?

This category represents UNCIF's real estate managers that are not part of this RFP.

24. Is the custodian collecting all performance reports from each manager or is that outside of the scope of the custodian's responsibilities?

The custodian collects performance information for all NCSIF managers.

25. What is NC State's mid/long term plan for the portfolio's total private investment pool? Does NC State expect to continue having multiple pools of private investments? If so, how will capital be allocated to the various pools? By whom? How frequently?

The goal for NC State's private asset program is to have a self-funded, direct private asset portfolio broadly diversified by vintage year, type, strategy, and geography that will balance the overall risk/reward profile of the Fund outside of what is already being invested in UNCIF.

- 26. If NC State envisions maintaining multiple pools of private investments, each managed by different service providers (including UNCMC), how would the various service providers work together? What visibility would providers have into the other pools of private equity investments that are not managed by that service provider?**

We have the ability to analyze exposure level data for all assets, both public and private of NCSIF. In addition, any other details regarding the managers and NCSIF will be addressed with the private advisor selected.

- 27. How does NC State envision managing the overall asset allocation within the total private investment portfolio (including those managed by UNCMC)?**

We have the ability to analyze exposure level data for all assets, both public and private of NCSIF.

- 28. How does NC State envision the commitment pacing for the total private investment portfolio? Would each service provider (including UNCMC) determine the appropriate level of pacing for each pool they manage? How would total portfolio pacing be evaluated and monitored?**

We anticipate working with the private advisor to determine the appropriate pacing plan, as well as monitor and evaluate the NC State Private Equity program assets. (The assets subject to this RFP). We do not have control over the pacing of UNCMC private assets.

- 29. What is NC State's view/feeling about co-investments? Do the staff and investment committee see co-investments as a crucial part of the portfolio? Are the staff and IC comfortable with the current process for assessing and approving co-investments? Or would they like to see changes?**

NC State believes that co-investments are a significant opportunity to gain additional exposure while decreasing overall fees paid. Current strategies utilized in-house operate within fund-of-funds structures. The goal is to partner with the private advisor to build out internal processes for assessing and approving co-investment opportunities.

- 30. Will NC State continue to make private investment commitments to UNCMC?**

NC State does not make private investment commitments to UNCMC. As noted in question #2 above, UNCMC manages the UNC System Fund. Assets invested with the System Fund are broadly diversified by asset class which includes private assets.

- 31. Where are distributions from UNCMC private investments allocated? Back into private investments managed by UNCMC, or back into the NCSIF portfolio?**

The NCSIF does not directly receive distributions from UNCIF's private portfolio. For further explanation of the accounting of NCSIF, please refer to the fund's annual audit located at https://www.ncsu.edu/project/fdns-acct/investment_fund/audits/.

- 32. What pool of assets (amount and source) would be covered for the services contained in the RFP? Will there be additional sources of capital for this pool? If so, please describe.**

Please refer to question 20 within this document.

- 33. How many sponsors of private funds that you have used successfully in client accounts are unlikely to accept money from new investors in private funds that they may sponsor? Can you please be specific about your concern here or clarify what information you are seeking? Certain funds might be incredibly selective about allowing new investors in to their latest fund, but few GPs would say empathically they are closed to new investors. That makes this question hard to answer with 'data'.**

The goal with this question is to add color to historical performance data. If the returns are strong, but most of which was driven by GPs that are extremely selective with new investors and unlikely to accept funds from them, then it would need to be taken into account.

- 34. The scope of the RFP appears to be for nondiscretionary (advisor/consultant) services but the excel spreadsheet also requests information our discretionary services. Can you please confirm what type of services you are seeking?**

We are seeking non-discretionary services. However, due to the customization of non-discretionary relationships and the ability of the client to have input into investment decisions, we believe that the performance of the discretionary services will provide greater insight into the historical investment performance of the consultant itself.

- 35. We typically provide references after we learn we are selected to present during the finalist rounds unless it is requested that we provide them in the RFP response. Please comment on the most appropriate/ideal timing for us to provide references to NC State.**

We have requested references to be provided as part of the completion of the RFP. Please see question #16 on page 13 of the RFP.

- 36. Clients by assets size: AUA or total client assets? AUA is more representative of assets/clients where we are highly engaged.**

Please provide data relating to assets under administration (AUA), and also indicate this statement as a note within the excel spreadsheet attachment.

- 37. Clients / "AUM" by strategy (discretionary): Based on how we categorize data internally, we maintain this data broken into PI, HF, and Total Portfolio for our discretionary clients. Is NC State comfortable with this breakout?**

Please indicate this statement as a note within the excel spreadsheet attachment.

38. Client / “AUM” by strategy (non-discretionary): (Same as above but for non-discretionary advisory)

Please see answer to question 37 within this document.

39. We do not break out discretionary and non-discretionary PI performance. When showing PI performance we use a pre-approved universe which meets our established criteria (PI reporting, PI specialist, minimum of 10 funds, has been with the firm for a minimum 10 years, 10+ year PI portfolio).

Please document as to what the performance represents, including the universe as mentioned above.

40. Vintage year IRRs: Please confirm if you are seeking IRR’s for the underlying funds (not the PI carve out portfolios per client).

Yes, we are seeking IRR's for the underlying funds.

41. Please provide clarification for what you are seeking re: quartile rank.

Both public and private assets are represented in various databases or Universes. A common diligence process is to understand how funds rank against other funds in their respective asset classes. We are seeking the quartile rank for all funds within the respective asset classes and vintage years that you have data. Please state what Universe is used for this purpose.

42. Is the RFP intended to be a due diligence process, or is the RFP intended to result in a change in consultants?

We currently do not use a consultant. The RFP is intended to be a due diligence process.

43. Do you use a consulting firm presently? If so, would you be willing to share the incumbent’s identity?

We currently do not use a consultant.

44. Is the current consultant being considered as part of this process?

We currently do not use a consultant.

45. How much is your current consulting firm being compensated annually to provide private equity advisor services service to the NC State Investment Fund?

We currently do not use a consultant.

46. What do you think is the single most important characteristic of an investment consulting firm?

We believe the most important characteristic of a private advisor is the depth and quality of their investment process from idea generation, partnership selection, pacing plan to commitment of the funds.

47. What prompted your desire to conduct a search at this time?

The NCSIF Board recently approved to move forward with the continuation of our current private asset program. Given our desire to build this program to a direct investing private asset program vs. fund of fund structure, as well as limited staff resources, we felt it was necessary to partner with a private advisor that would work with the team to build a successful self-funded private asset program.

48. How many firms will be interviewed for the finals process?

Two to three firms will be interviewed for the final process.

49. How many meetings per year are anticipated?

There are four formal board meetings each year. We are planning to form a sub-committee of the Board to be dedicated to private assets, which may communicate more frequently through conference call, email, or in person depending on the circumstance.

50. Is there any interest in a discretionary arrangement, in which the role of the consultant is expanded to include setting and implementing asset allocation, investment structure and manager selection?

We do not desire to hire a discretionary consultant.

51. What is the most important investment issue your fund is currently facing?

One of most important issues of NCSIF is meeting the fund's stated target of 8%, while maintaining intergenerational equity especially given the current investment environment.

52. How large is your internal investment staff and can you briefly describe their key investment responsibilities and whether they have any non-investment duties as well?

Our current investment staff consists of three investment professionals. The Director of Investments oversees all investment portfolios which is approximately \$1.5B, the Investment Analyst conducts investment research and focuses on managing current and future manager relationships, and the Investment Reporting Specialist analyzes and reports on individual manager and total portfolio data to the Board of Directors for all portfolios. The Director of Investments does have some non-investment duties.

53. Are incumbent firms / relationships (SEI, JP Morgan, Blackrock, and UNCMC) permitted to respond to the RFP? In addition to managing down the existing commitments, are on-going relationships with these firms desired?

Given this RFP is a public document, any firm is welcome to respond. We have not committed new capital since 2008 and most of our current funds are in the harvesting phase. Our goal is to move away from fund-of-funds investment vehicles. The overall relationship with UNCMC will be ongoing.

54. How extensive will the involvement be of staff / investment committee with the new private equity adviser in terms of commitment pacing and selecting limited partnerships relative to the mostly out-sourced selection function of SEI, JP Morgan, Blackrock, and UNCMC?

Staff will be involved 100% with the new private advisor in terms of commitment pacing, selecting partnerships, etc. Our plan is to bring a combined recommendation (staff plus advisor) to the private asset sub-committee for formal approval on the pacing plan, allocation and partnership selection.