



## Government Pension Investment Fund (GPIF)

April 17, 2017 ( Updated on 3 July, 2020)

# Request for Proposal from Asset Managers for Alternative Assets

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# 1. GPIF Alternative Investments and Approach

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➤ Expected effects to be brought about by alternative investments

➡ Improvement in investment efficiency through diversified investments. This will be achieved by adding alternative assets to investment portfolio, as they have unique risk and return profiles which are different from conventional instruments such as listed equities and bonds.

➤ Investment approach (extracted from the business description in the material, “Consulting business concerning investments in alternative assets” presented at the competitive bidding held in October 2016)

(1) Investments through a Gatekeeper / Fund of Funds (FoF)

(2) Co-investments with institutional investors

(3) Investments in single funds

➡ The RFP at this round is intended for asset management in the form of the above (1) Investments through a Gatekeeper/FoF.

(The above (2) and (3) methods will be considered as the regulatory environment becomes more conducive to that and when there is further expansion of the dedicated team.)

(Reference: Positioning of alternative assets in terms of basic portfolio (extracted from the Medium-Term Business Plan)

“Alternative investment will be made within a maximum of 5% of the total portfolio. Infrastructure, Private Equity, Real Estate or other assets determined upon Investment Advisory Committee deliberation, are classified as domestic bonds, domestic equities, foreign bonds or foreign equities, depending on their risk and return profiles.”

## 2. Overview of the RFP

- Selection of asset managers who implement a multi-manager strategy for alternative assets by setting a separately managed account exclusively for GPIF.
- Asset class / Investment style
  - (1) Private Equity: Global-Diversified
  - (2) Infrastructure: Global-Core
  - (3) Real Estate: (i) Global-Core, (ii) Japan-Core
    - \* Products investing in specific regions, e.g. North America/ Europe etc., and strategies can be considered for selection.
    - \* Products investing mainly in listed funds should be excluded from selection.
    - \* Core-type means that a product mainly focuses on generating stable income.
- Application method: By the Asset Manager Registration System (alternative assets) in which applications can be submitted at any time without a specific deadline.

Evaluation will be conducted from June 1, 2017. (Subsequent evaluation will be conducted at any time thereafter.)

(Reference: Conceptual image of asset allocation in a mandate to asset managers (Note: The description of strategy names and categories are examples.)

Private Equity (PE)						Infrastructure						Real Estate					
• Assuming the basic form for a mandate is to target global regions with adoption of all strategies						• Same as left						• Regions are split into Japan and global areas.					
Strategy	Category	North America	Europe	Others	Japan	Strategy	Category	North America	Europe	Others	Japan	Strategy	Category	North America	Europe	Others	Japan
Private debt	Bonds					Infra. debt	Bonds					Real estate debt	Bonds				
Buyout	Equities					Core	Bonds					Core	Bonds				
Growth capital	Equities					Opportunistic	Equities					Opportunistic	Equities				
Venture capital	Equities					Value added	Equities					Value added	Equities				

## 2. Overview of the RFP(Continued)

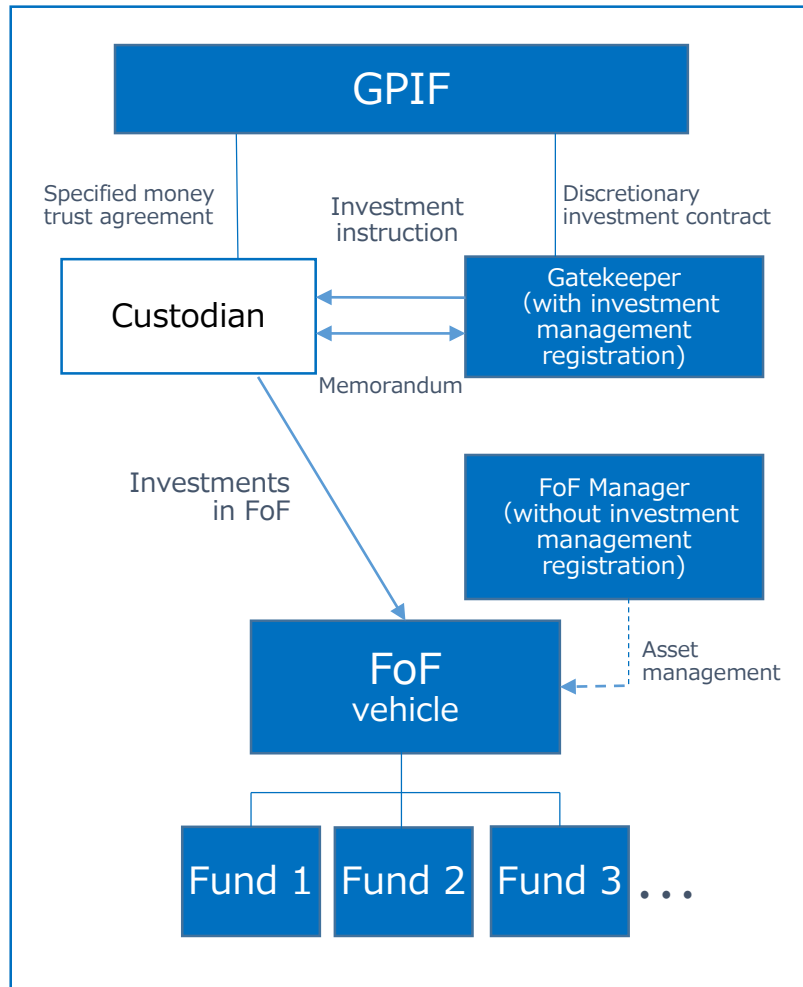
Items	Required Qualifications
Registration of investment management business	Asset Managers who have Investment Management Business registration under the “Financial Instrument and Exchange Act (Act No. 25 of 1948)” and who can conduct Investment Management Business. If an investment decision is effectively made by another organization, that subcontracting institution should obtain permission from the supervisory authority of the country where their investment teams are located, or that subcontracting institution should conduct registration/notification based on the laws and regulations of the country.
Assets under management (AUM)	<p>Current AUM of the company group (*1) from domestic and foreign pension funds should be 100 billion Japanese Yen or more (by e.g. Discretionary Investment Contract, individually operated designated trust agreement). If total AUM from pension funds is less than 100 billion Japanese Yen, total AUM including assets from other institutional investors, e.g. financial institutions, foundations should be 100 billion Japanese Yen or more. The company group (*2) to which subcontracting institution belongs needs to meet the same qualifications regarding AUM. In this case, the Asset Manager that outsources investment management to the subcontracting institution does not need to meet this qualification.</p> <p>(*1) The company group, including the applying Asset Manager, which consists of a parent company, subsidiaries, and group companies, submit consolidated balance sheets based on the Principle of Consolidated Balance Sheet.</p> <p>(*2) The company group, including the applying subcontracting institution, which consists of a parent company, subsidiaries, and group companies, submit consolidated balance sheets based on Account Standards of the country where the investment teams are located.</p>
Assets under management on proposed asset class and track records	In principle, the manager should have a five-year track record in the mandate (either commingled fund accounts, separate accounts, and/or outsourced accounts). The manager should also have a current AUM of 30 billion Japanese Yen or more in the mandate. If an Asset Manager in Japan outsources investment management to a subcontracting institution, the subcontracting institution is required to meet the same qualification above as an effective investment manager. In this case, the Asset Manager is not required to meet this qualification.
Prohibition against second entrustment	If an investment decision is effectively made by another organization, the investment decision should be made within that subcontracting institution.
Inappropriate conduct	None of companies in the company group have been involved in significantly inappropriate behavior regarding investment management business in the past 3 years. If an investment decision is made by another organization or subcontracting institution, the same rule applies to the company group of the subcontracting institution.

\* GPIF will accept information from a company that does not meet the required qualifications.

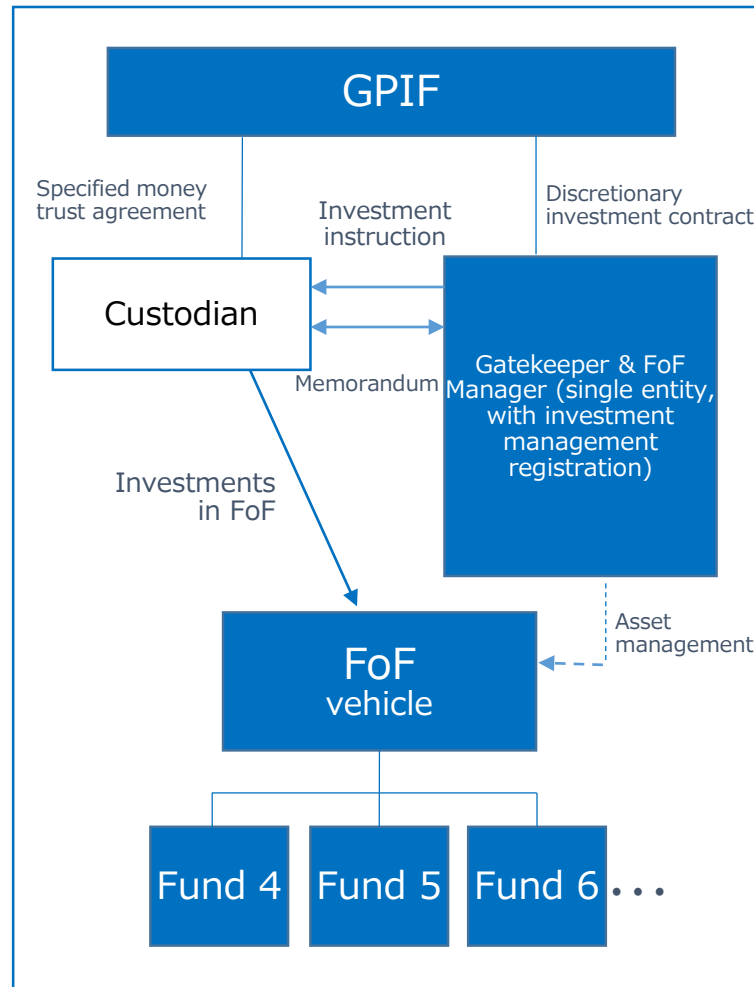
### 3. Roles and Duties of Asset Managers

#### (1) Illustrative structure of investments through a Gatekeeper/FoF Manager in the multi-manager strategy

Pattern 1



Pattern 2



- ✓ Pattern 1: Gatekeeper with investment management registration, and FoF Manager without investment management registration, albeit having actual business experience in targeted instruments, jointly apply for the recruited position. (Example: A pair consisting of a Japanese asset management firm with investment management registration, and a FoF manager abroad)
- ✓ Pattern 2: A Japanese trust bank, an asset management firm, or a foreign-affiliate asset management firm, which is registered to engage in the investment management business, and has actual investment management experience with a targeted portfolio, applies independently.
- ✓ Provision of information: With a view to collecting a broad range of information from asset managers having outstanding investment ability, GPIF will accept information from FoF managers abroad who do not have a partner for joint application.

### 3. Roles and Duties of Asset Managers (Continued)

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(2) Expected roles and duties of a Gatekeeper:

- Pre-investment: Due diligence of an FoF Manager by exercising duty of care, set-up of a separately managed account best suited to GPIF, and communication with a custodian.
- Post-investment: In collaboration with an FoF Manager, managing LPS vehicles' operations (cash flow management including capital calls and distributions, monitoring which includes performance analysis and net asset value validation, and reporting)

(3) Expected roles and duties of FoF Managers

- Pre-investment: Development and execution of a portfolio strategy and an asset allocation plan, in conformity with the GPIF Investment Principles and guidelines
- Investment execution: Sourcing opportunities (underlying funds), due diligence (DD), negotiations of terms and conditions, and structuring
- Post-investment:
  - Monitoring of investee funds, performance analysis
  - Risk management
  - Net asset value validation
  - Regular reporting
  - Accounting, tax, and legal matters
  - Knowledge transfer
  - Support for building relationships with GP, etc.

### 3. Roles and Duties of Asset Managers (Continued)

(High-level investment criteria)

	Private Equity	Infrastructure	Real Estate
1. Investment objectives	<u>Improvement of risk-adjusted returns through efficient investments in a diversified strategy based on the current market environment</u>	<u>Aim to generate stable returns through efficient investments in a diversified strategy based on the current market environment</u>	<u>Aim to generate stable returns through efficient investments in a diversified strategy based on the current market environment</u>
2. Investment strategies	(1) Strategy Private Equity funds <u>with a variety of investment strategies</u>  (2) Region Global-Diversified	(1) Strategy Focused on mainly <u>brownfield-core type</u> Infrastructure funds  (2) Region <u>Mainly developed countries</u>	(1) Strategy Focused on mainly <u>core type</u> Real Estate funds  (2) Region <ul style="list-style-type: none"> <li>• <u>Mainly developed countries (excluding Japan)</u></li> <li>• <u>Japan</u></li> </ul>
3. Targeted investments in FoF	Targets: Unlisted funds that invest in equity and/or debt of unlisted companies/Infrastructure/Real Estate (1) Diversify managers, vintage years, etc. (2) Ensure the managers' policy for environment, social, and governance (ESG). Opportunities in primary, secondary investments and/or co-investments		
4. Leverage	No leverage to pursue higher returns in FoF. (Excluding short-term borrowing for cash management purposes) Monitoring leverage level in underlying funds to ensure diversification of lenders and maturities.		
5. Investment scheme	Ensure compliance with laws and regulations, efficiency in tax and accounting, etc.		
6. Disclosure	Meet GPIF disclosure policy		
7. Performance	Evaluate excess return over the targeted IRR and/or cash yield, etc.		

## 4. Schedule

- Applications for Asset Manager Registration and Product Information will be accepted at any time.
  - Interviews will be conducted as necessary. (Note: GPIF meets with prospective asset managers provided that fairness and information securities are in place.)
- Evaluation to start on June 1, 2017. (Subsequent evaluation will be conducted at any time thereafter.)
  - The timing for selection is to be determined.
- Evaluation criteria: Refer to GPIF Operation Policy, “4. Overall Assessment Method”
- Processes



\* Consulting firms are involved in the evaluation process.