



REQUEST FOR PROPOSAL FINANCIAL ADVISORY SERVICES

PROPOSAL ISSUE DATE

August 10, 2018

PROPOSAL SUBMITTAL DUE DATE

August 31, 2018

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I. Purpose of Request

The Surplus Lines Stamping Office of Texas (SLTX) is requesting proposals from independent, qualified Investment Consulting Firms to provide investment management services to SLTX. Further qualifications and expectations are described in this RFP Document.

II. Schedule of Events

<u>TASK</u>	<u>DATE</u>
RFP Issued	8/10/2018
Questions and Clarification	8/12/2018 – 8/31/2018
RFP Submissions Due	8/31/2018
RFP Submissions Review	9/1/2018 – 9/14/2018
Schedule Finalist Interviews	9/10/2018 – 9/14/2018
Finalists Interviews	9/24/2018 – 9/28/2018
Financial Advisor Selected	10/5/2018

SLTX will attempt to follow this timetable, which should result in a final selection by October 5, 2018.

III. Important Information

All questions should be submitted in writing (email preferred) to:

Kyle Bolls, Vice President of Finance / CFO

Surplus Lines Stamping Office of Texas

805 Las Cimas Parkway, Suite 300

Austin, TX 78746

accounting@sltx.org

*If immediate assistance is required, please call

1-512-531-1880 or 1-800-681-5848 (option 5, Accounting).

The deadline for proposals is 5:00 p.m. central time, on Friday, August 31, 2018.

Proposals must be submitted electronically as an email attachment in PDF or MS Word format to: accounting@sltx.org. A hard copy may be mailed to the mailing address above, but an electronic copy is required.

Late proposals will not be accepted.

Qualified proposals will be complete in every respect, answering concisely and clearly all questions proposed by the RFP.

Selected Firm will assist SLTX in management of SLTX's invested assets. Initially, the focus will be on equities securities and alternative investments.

If selected, the Investment Management Firm must abide by the requirements outlined in this RFP, including all exhibits and attachments.

Starting date for the Investment Manager is anticipated to be approximately October 8, 2018.

IV. SLTX Background

SLTX was created by the Legislature of the State of Texas in 1987 solely to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance and to encourage compliance with surplus lines insurance laws and regulations. SLTX commenced operations on July 1, 1988, and is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. SLTX is considered a Special-Purpose Governmental Entity Engaged Only in Business-type Activities and is a component unit of the State of Texas for financial reporting purposes.

Investment History

SLTX has historically invested in government-backed fixed income and brokered CDs fully insured by the FDIC, as the main objective of the investment portfolio was preservation of capital. As of 6/20/2017, a new Investment Policy Statement was adopted by the SLTX Board of Directors. Please see Exhibit A, Surplus Lines Stamping Office of Texas Investment and Cash Management Policy (SLTX IPS), for further details about the current investment policy.

SLTX believes it is not subject to regulatory restrictions of governmental entities relating to investable assets, and the investment policy enacted

by the SLTX Board of Directors is the lone governing document of SLTX investments.

Size of current investment portfolio – \$9.9M (as of 7/31/18).

V. Investment Management Firm Minimum Qualifications

The Firm has been in business for at least five (5) years providing institutional investment manager/fund consulting services.

The Firm must comply with all applicable State, Federal, and City laws, ordinances, regulations, and codes and be registered and in good standing with all required regulatory bodies the Investment Management Firm is subject to.

The selected Firm must meet the listed requirements of the Investment Manager as described in the SLTX IPS.

The Firm must agree to be a fiduciary of SLTX.

VI. Investment Management Services Required

General Requirements

The Investment Manager is contracted by SLTX to serve the SLTX Chief Executive Officer (CEO) and SLTX Chief Financial Officer (CFO) as they implement the investment policies enacted by the SLTX Board.

The Investment Manager is a fiduciary of SLTX and will satisfy all applicable fiduciary duties in performing services to SLTX. The Investment Manager will be required in the contract with SLTX to acknowledge its fiduciary status and agree to satisfy its fiduciary duties in performance of services to SLTX.

The CFO for SLTX shall review and approve the Investment Management Firm's invoices to SLTX related to duties performed in accordance with the future investment management services agreement, shall have primary responsibility for overseeing and approving services to be performed by the Investment Management Firm, and shall coordinate all communications with the Firm from SLTX.

Investment Management Requirements

Manager must strictly adhere to SLTX IPS.

Manager must provide a holistic portfolio approach and work with SLTX staff who internally manages the fixed income portion of the portfolio.

Selected Investment Management Firm must be available by phone or in person between 9:30 a.m. – 4:30 p.m. central time Monday – Friday, excluding national holidays.

Selected Firm must provide monthly statements to SLTX accounting staff that must include, but is not limited to, the beginning and ending balances for each account managed by the selected Firm, all transactions that occurred in each account managed by the selected Firm, change in value in portfolio and individual securities, and other reasonable requests made by SLTX in the future.

Selected Firm must be available to present investment performance and history for the SLTX Board of Directors at quarterly and annual meetings.

Manager must work with the audit firm that provides an annual audit of SLTX's Financial Statements. The selected Firm must reply to any request from the audit firm within 48 hours. The selected Investment Management Firm must be able to comply with any authorized request from the audit firm with urgency and within audit firm's requested time frame if the request is reasonable, authorized, and obtainable from the selected Investment Management Firm.

Manager must provide advice with respect to the establishment or refinement of SLTX investment policies, guidelines, and procedures, including in connection with the Board's annual review of such documents.

Manager must conduct asset liability and/or asset allocation studies as requested by SLTX.

Manager must perform benchmark reviews and recommendations for the overall Fund and specific asset classes at least annually.

Manager must provide SLTX research and analysis on specific investment topics upon request.

Manager must advise on all other relevant matters pertaining to the prudent and optimal management of the SLTX investment portfolio as needed.

Provide annual analysis of investment manager fees.

VII. General/Other

Investment Management Agreement

The contents of the proposal, and any clarification submitted by the successful proposer, shall become part of the contractual obligation and incorporated into the ensuing contract.

SLTX Tax Exempt Status

SLTX is exempt from all local and state sales taxes and, therefore, will not be responsible for the payment of any such taxes.

Open Records

By submitting a proposal, a proposer acknowledges that SLTX is subject to the Texas Public Information Act (TPIA) and the Texas Open Meetings Act (TOMA). Written proposals may be subject to disclosure under the TPIA upon request by a third-party, and information in a proposal discussed at an open meeting of the SLTX Board of Directors is public record. A proposer may mark information in its proposal as confidential, and SLTX will notify a proposer of any request by a third-party for such confidential information in accordance with the TPIA.

Termination

SLTX reserves the right to terminate or suspend this Agreement at any time, with or without cause, by giving ten (10) days' notice to Investment Management Firm in writing. In the event of termination, all finished or unfinished reports or other material prepared by the Investment Management Firm pursuant to this Agreement shall be provided to SLTX. In the event SLTX terminates prior to completion without cause, Investment Management Firm may complete such analyses and records as may be necessary to place its files in order. Investment Management Firm shall be entitled to receive just and equitable compensation for any satisfactory

work completed on the project prior to the date of suspension or termination.

Transfer of Responsibilities

The Investment Management Firm shall not assign, transfer, convey, pledge, or otherwise dispose of this Agreement or any part of this Agreement without prior written consent of SLTX.

Hold Harmless

The Investment Management Firm shall defend, indemnify and hold SLTX, its officers, directors, employees, and volunteers harmless from any and all claims, injuries, damages, losses, or suits, including attorney fees arising out of or resulting from the acts, errors, or omissions of the Investment Management Firm in the performance of duties outlined in this RFP, except for injuries and damages caused by the sole negligence of SLTX.

Indemnity

The Investment Management Firm shall procure, maintain, and provide to SLTX evidence of insurance for the duration of its engagement with SLTX. The insurance must protect against claims for errors and omissions, injuries to persons, or damage to property that may arise from or in connection with the performance of the work hereunder by the Investment Management Firm, its agents, representatives, or employees. A failure to obtain and maintain such insurance or to file required certificates and endorsements shall be a material breach of any signed Agreement related to this RFP and subsequent investment management services.

Minimum Amounts of Insurance

Consultant shall maintain the following insurance limits:

Automobile Liability insurance with a minimum combined single limit for bodily injury and property damage of \$1,000,000 per accident.

Commercial General Liability insurance shall be written with limits no less than \$1,000,000 each occurrence, \$2,000,000 general aggregate.

Professional Liability insurance shall be written with limits no less than \$1,000,000 per claim and \$1,000,000 policy aggregate limit.

Exhibit A

Surplus Lines Stamping Office of Texas

Investment and Cash Management Policy

Approved: 06/20/2017

Purpose

Policy statement for the investment and cash management objectives, restrictions, allocations, and guidelines for the operating cash and investment assets held by the Surplus Lines Stamping Office of Texas (SLTX).

Cash Management

SLTX will maintain cash for ongoing operations at a qualified financial institution separate from assets held as investments under this policy. Cash maintained in an operating account shall be sufficient to fund expected cash outflows for operations of SLTX for approximately 90 days.

Investment Objectives

1. To manage investments with the goal of preservation of capital.
2. To provide sufficient liquidity to meet the routine and projected cash requirements of SLTX.
3. To achieve a rate of return adequate to support the organization's operations and programs, meet expenses, and offset the impact of inflation.

Investment Restrictions

The investment portfolio is subject to the following restrictions:

- All investments must be publicly traded.
- All investments must be U.S. dollar denominated.
- No more than 5% of voting securities of a corporation may be owned.
- No more than 10% of the portfolio shall be invested (including debt and equities) in one corporation at cost.
- No more than 25% of the portfolio shall be invested in any one industry at cost.

Eligible investments of each asset class are subject to the following restrictions:

Certificates of Deposit (CD's)

- Certificate of Deposit shall be limited in principal amount to the FDIC insurance ceiling.

Fixed Income Securities

- Taxable Domestic Fixed Income – investment permitted through purchase of individual securities, open-ended mutual funds, or exchange-traded funds.
- Taxable Foreign Fixed Income – investment permitted through open-ended mutual funds or exchange-traded funds. No individual securities purchases are allowed for this asset type.
- High Yield Fixed Income – investment permitted through open-ended mutual funds or exchange-traded funds. No individual securities purchases are allowed for this asset type.

Equities

- All equity investments may be invested through open-ended mutual funds and exchange traded funds (ETF). Individual equity securities are not permitted.
- Indirect investment in a single corporation through mutual funds or ETF is limited to no more than 5% of voting securities, in the aggregate.
- Equity investments will include a mix of:
 - Large-Cap Equity
 - Mid-Cap Equity
 - Small-Cap Equity
 - International Equity

Alternative Investments

- Prohibited alternative investments include:
 - Restricted Securities
 - Private Placements
 - Derivatives
 - Options
 - Futures
 - Margined Transactions

Acceptable Portfolio of Investments

The portfolio will consist of investments which will be within an acceptable range as outlined below:

ASSET CLASS	PERCENT OF PORTFOLIO MARKET VALUE		
	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Certificates of Deposit	10%	60%	25%
Fixed Income Securities	10%	60%	45%
Equities	10%	40%	25%
Alternative Investments	0%	10%	5%

The asset allocation is designed to achieve long-term return objectives while minimizing, to the extent reasonable, the variability of results. This allocation is subject to change by the Board as future conditions and needs dictate. The portfolio should be rebalanced annually to the target allocation. However, in the interim, if an investment category experiences growth or decline causing it to deviate from the stated target allocation by 5%, rebalancing may occur.

Investment Manager

To assure all investments are managed in both a prudent and professional manner and are following these guidelines, the Executive Director/CEO is granted authority to engage a qualified investment manager. This is in accordance with previous Board resolution adopted June 16, 2009. Any investment manager selected must be a member of the Securities Investor Protection Corporation (SIPC) and Financial Industry Regulatory Authority (FINRA).

Investment managers retained by SLTX must acknowledge these guidelines and any investment management Agreement entered by SLTX will include a provision that the manager will be bound by this investment policy.

Responsibility

The Chief Executive Officer of SLTX is responsible for overall management of investments, in accordance with this policy, with specific designee to the Chief Financial Officer (aka Director of Finance) to implement policy decisions of the Chief Executive Officer.

The Director of Finance shall report the performance and overall condition of the investment portfolio to the Audit and Finance Committee, who will report findings and recommendations to the Board.

Investment Safekeeping

SLTX's securities will be held in safekeeping by SLTX's bank and/or investment management firm(s). The bank and/or investment management firm(s) will provide custody receipts and verification to SLTX's auditors, of securities held as requested.

The investment management firm(s) shall discharge its responsibilities in accordance with generally accepted fiduciary standards and the criteria established in investment policy objectives and guidelines.

The investment management firm(s) is expected to provide any reasonable information requested by the Board or Audit and Finance Committee. At a minimum, the representative(s) shall provide a written quarterly report detailing

the portfolio performance, the portfolio's current value, and any changes in investment philosophy or strategy. Representatives of the investment management firm may be asked to meet with the Board or Audit and Finance Committee or its designee periodically to review investment performance and philosophy.

Exceptions to this policy

It is expected that from time to time it may be necessary to deviate from this policy due to increased or decreased liquidity needs, or to take advantage of a particular situation and/or investment. The spirit of this policy is not to prevent exceptions, but to promote planning for investments to optimize income and to integrate investment strategy with other SLTX activities. Exceptions from this policy must be approved by the Audit and Finance Committee in writing and presented to the Board of Directors at the next Board meeting.

There will be a transition period of 6-18 months after initial adoption of this policy, in which current investments will mature and this policy will be implemented.

Exhibit B

RFP Requirements, Processing, and Selection

The RFP Submittal shall follow the same order
as the information requested in this exhibit.

I. Investment Management Firm Information

- a. Organization Information and Relevant Experience
 - i. Provide address, phone number, website, and email for the Investment Management Firm.
 - ii. Provide the location of the base office for the individuals who will be assigned to SLTX and identify all individuals involved in portfolio management, including clerical and support staff.
 - iii. Describe Firm's relevant experience in providing financial advisory services. Identify:
 - 1. The Firm and its history, including number of continuous years of operation.
 - 2. The Firm's investment philosophy and approach.
 - 3. Describe the Firm's internal quality control policy and procedures.
 - 4. Describe the Firm's ethics/conflicts-of-interest policy and any internal controls with respect to such policies as determined by the number of professionals employed by the Firm.
 - 5. The Firm's asset under management.
 - 6. The Firm's minimum balance requirement.
 - 7. Other relevant information.
- b. Please state the Firm's fee proposal for the scope of work as Investment Manager as described in this RFP, including all attachments and exhibits. Please document any key assumptions made in developing the fee proposal and any other contingencies SLTX should be aware of.
- c. Indicate whether any litigation or regulatory actions, including allegations of ethical violations, have been initiated within the last 10 years against the Firm, its officers, or partners. If any such actions have been initiated, provide details.
- d. Describe the levels of coverage for errors and omissions insurance and any other fiduciary or professional liability insurance the Firm carries for negligent acts or omissions.

II. Individual Investment Manager Information

- a. Describe the experience of individuals providing investment management services to SLTX and identify:
 - i. The individual(s) who will initially serve as the primary point of contact with SLTX under this contract. Please include address, phone number, and email address.
 - ii. The investment philosophy and approach of the Manager(s) assigned to the SLTX Account.
 - iii. The individuals who are expected to work on SLTX transactions. Please describe the type of work each is expected to perform. Provide a brief background summary, including experience and training, for each team member involved in SLTX transactions.

III. SLTX Proposed Plan of Action

- a. What can the Firm offer to SLTX that distinguishes it from its competitors?
- b. Describe, in detail, the Firm's plans to provide the services outlined in the RFP. Include:
 - i. Proposed investment techniques and methodologies.
 - ii. Timeline of proposal implementation.
 - iii. Product offerings.
 - iv. Specify regular fees and commissions.
 - v. Non-profit pricing.
 - vi. Other information.
- c. Explain how the Firm finds, evaluates, and proposes investments used in portfolio management.
- d. Describe the Firm's process for evaluating and disposing of assets.
- e. Describe the Firm's philosophy as it pertains to servicing account relationships. Include the approach to formulating goals and objectives, communications, training, and the decision-making process.
- f. Does the Firm have clients using alternative investments? If yes, what form of alternatives primarily? How does the Firm assist in the design, implementation, and monitoring of such investments?
- g. Explain the Firm's approach to diversification and how it would be used in the SLTX Portfolio.

IV. Investment Account Documentation

- a. Please provide a copy of the following:
 - i. Standard Investment Services Agreement;
 - ii. Account Application Documents;
 - iii. Other relevant Firm documents that are required for opening an account.

V. Evaluation Criteria and Final Selection

- a. SLTX reserves the right to award a contract, not necessarily to the Firm with the lowest cost, but to the Firm that best meets the requirements and needs of SLTX. The proposing Firms must have experience providing investment management services for commercial and/or non-profit entities. The proposer must clearly demonstrate it can provide the services SLTX requires.
- b. SLTX staff will evaluate submitted responses. Due diligence visits may be conducted by SLTX staff at the proposer's headquarters office. Interviews with the finalists will be scheduled and conducted with the SLTX Executive Leadership Team.
- c. SLTX retains the right to require additional information from proposers and to conduct necessary investigations to determine responsibility of proposers or to determine accuracy of proposal information.

VI.RFP submittal general information:

- a. Inquiries and submission of proposals should be directed to:
Kyle Bolls, Vice President of Finance / CFO
Surplus Lines Stamping Office of Texas
805 Las Cimas Parkway, Suite 300
Austin, TX 78746
Accounting@sltx.org
1-512-531-1880 or 1-800-681-5848 (option 5, Accounting)

The deadline for proposal submissions is 5:00 p.m. central time on Friday, August 31, 2018.

- b. **Proposals must be submitted electronically**, as an email attachment in PDF or MS Word format to: accounting@sltx.org. A hard copy may be mailed to the mailing address above, but an electronic copy is required.
- c. Late proposals will not be accepted.

- d. Qualified proposals will be complete in every respect, answering concisely and clearly all questions proposed by the RFP. The RFP must be answered completely and in the same sequence. Supporting material must be clearly referenced to the appropriate question.
- e. Starting date for the Investment Manager is anticipated to be approximately October 8, 2018.