

# ANSWERS TO QUESTIONS RECEIVED ABOUT THE 2021 BANCO DE LA REPUBLICA RFP FOR EXTERNAL MANAGERS OF THE FOREIGN RESERVES

We are sending a compilation of the questions (with corresponding answers) that we received during the two-week window that we offered. Some questions were edited for clarity and confidentiality purposes. If you believe that a question that you formulated remains unanswered, please let us know

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## ELIGIBILITY CRITERIA

1. We recall having brought Company A to you many years ago when we were one company, but we split completely shortly after, just maintaining the same ultimate shareholder. Owing to this split, we don't know whether you still have business with them or not, and whether that would disqualify us from presenting ourselves in the current search?

***Answer: Existing investment managers of the Bank, their Affiliates, and any other firm or Affiliate of any firm that has served the Bank as a manager of the Bank's Foreign Reserves on or after December 31, 2015 will not be eligible for consideration. Affiliate means any entity or legal organization that controls, is controlled by or is under common control, with another entity. Current external managers of the Bank's Foreign Reserves can be found at <https://www.banrep.gov.co/en/report-board-directors-congress-colombia-march-2021>***

2. Company B had a management and investment contract with Banco de la República from May 2011 to May 2016. We would like to confirm if we are eligible to participate in this selection process

***Answer: Existing investment managers of the Bank, their Affiliates, and any other firm or Affiliate of any firm that has served the Bank as a manager of the Bank's Foreign Reserves on or after December 31, 2015 will not be eligible for consideration. According to our records, Company B has not served as a manager of the Bank's Foreign Reserves.***

3. Which is the expected size of the mandate?

***Answer: The approximate amount of the portfolio under management is US\$1.5 billion. This is an approximate amount, only for reference purposes. The Bank can modify the amount under management and the investment guidelines at any time.***

4. Only one external manager would be chosen, or it could be more than one?

***Answer: The Bank reserves the right to not appoint any new managers as well as the right to appoint one or more external asset managers.***

## GENERAL QUESTIONS

5. Throughout the document you ask for December 31, 2020 data. Would you like anything more recent on top of this? Would you prefer 3/31/2021 or 6/30/2021 data?

***Answer: We want the required information to be submitted as indicated in the RFP.***

6. When it comes to knowledge transfer, are you expecting a minimum requirement?

***Answer: The selected firm is expected to provide, at minimum, five days of training for two officers or ten days of training for one officer per year, including accommodation and transportation costs. In the event that travel is not possible due to travel restrictions, or as deemed more convenient or appropriate by the Bank, the Bank will expect an equivalent amount of virtual training and support. This training must suit the Bank's needs and be offered for both junior and senior staff. This service is not a requirement to participate in this RFP but it will be taken into account in the evaluation. It is also possible to provide training at BdLR's premises and it will be considered part of the training proposal.***

7. With respect to the BdLR's objective (enhancing the performance of Colombia's Foreign Reserves Investment Portfolio), how does BdLR think about this performance enhancement? Is preference placed on absolute returns or risk adjusted returns? Is there a preferred measure to quantify this performance enhancement?

***Answer: The returns on the reserve's investment portfolios are compared against the performance of the benchmark to determine if the portfolio managers have done their job successfully.***

8. Are all external managers held to the same investment guidelines?

***Answer: Yes, all external managers have the same investment guidelines.***

9. Does BdLR prefer exposures to certain risk factors or is the bank agnostic to portfolio construction, provided the investment portfolio remains within the investment guidelines?

***Answer: External managers have discretion as to which assets and securities to trade (within the Bank's investment guidelines).***

10. Could you kindly explain which kind of information you expect from a "certificate of good standing"?

***Answer: A "Certificate of Good Standing" is known as a document that indicates that the entity is legally registered. The document is proof that the entity is authorized to do business in the place where it is registered and that follows all the legal requirements. It serves as proof, or evidence, that the entity exists and is authorized to transact business in that place. Please refer to your local authorities for more details.***

11. Section A Question 3 of the RFP: Reference clients. When asking our clients whether they'd be willing to act as reference, some decline being mentioned unless they know who will be asking. Are we allowed to mention BdLR as the one seeking such information?

***Answer: Yes, you can share BdlR's name.***

12. Section A Question 3 of the RFP: Reference clients. Do we already have to submit contact details or just the names of the institutions?

***Answer: Please provide contact details of the reference clients.***

13. Within the 30% weight to the 'investment process and risk management' section of the RFP. What importance do you assign to ESG components of the process?

***Answer: ESG is a topic that the Bank is currently exploring, and we want to understand how external managers include ESG considerations into their investment and risk management processes. For the evaluation of those processes different factors are considered and all of them add up to the overall rating according to an internal methodology.***

14. Please let us know if a fee schedule that considers fixed and a performance fees will be admissible for you. We want to clarify if a combination of base fee and performance fee would be acceptable.

***Answer: The Bank's External Management Program works under a variable fee schedule that includes a base fee component and a performance fee component.***

15. Given the requirement for us to share financial statements, could we have an NDA signed with Banco de la Republica?

***Answer: In connection with confidentiality, the RFP (please see page 3) sets forth the following: "To the extent permitted by applicable law, the Bank and the Candidates will treat as confidential any information provided to each other in connection with this selection process, unless such information is otherwise made public by a person other than the Bank or the applicable Candidate".***

## INVESTMENT GUIDELINES

16. Can we go outright short mortgages using TBAs?

***Answer: Yes.***

17. Does the Bank consider securities issued with registration exemptions as private placements? Examples include securities issued under 144a and 4.2A exemptions.

***Answer: Our understanding is that securities issued with registration exemptions are not always private placements.***

18. According to Note 4, 144As and Reg S are not permitted for Corporates and ABS, can you please confirm this?

***Answer: According to Note 4 private placements issued by government or government-related issuers are considered eligible investments. Private placements issued by other type of issuers are not considered eligible investments. Note 4 does not mention Reg S or 144As securities. Our understanding is that Reg S and 144As are not always private placements.***

19. As long as the overall duration is within the band of index +/- 0.7 years we can buy longer maturities and hedge the duration back. Please let us know if our understanding is correct

**Answer: Yes, it is correct.**

20. Is an outright short duration position in an individual currency using derivatives permitted as long as the overall portfolio duration is benchmark +/- 0.7 years?

**Answer: Yes.**

21. Does the portfolio have the ability to go net short duration?

**Answer: The effective duration of the portfolio must be within +/- 0.7 years of the benchmark's duration.**

22. Should Duration and spread duration ranges be quoted in years. If so, with spread duration in the benchmark at 0yrs, does the +/- 2 imply a max spread duration limit of 2 years?

**Answer: Yes, duration and spread duration ranges are quoted in years. If the spread duration of the benchmark was 0, the +/- 2 imply a maximum spread duration limit for the portfolio of 2 years.**

23. For currency and interest rate risk management, currency forwards and futures contract on interest rates and government bonds are allowed. Are they permitted for efficient portfolio management as well?

**Answer: Yes.**

24. Would there be a maximum maturity parameter for bonds we purchased? (e.g., a 10-year France EUR bond which we would then hedge both FX and interest rate exposure)

**Answer: There is not a maximum maturity parameter for bonds. Please note however that for other type of instruments (e.g., CD and CP) the investment guidelines stipulate maximum maturity requirements.**

25. Please let us know if Interest Rate Swaps (IRS) would be eligible derivatives (we would want such tool as they can be very effective in managing key rate duration buckets).

**Answer: Interest Rate Swaps (IRS) are not eligible derivatives.**

26. Please advise if Floating Rate Notes would be permissible (many ABS and securitized issues can be Floating Rate Notes).

**Answer: Yes, bonds and notes with floating rate coupons are eligible assets.**

27. Can Global TIPS be an eligible investment?

**Answer: Yes, inflation linked bonds and notes are eligible assets.**

28. Are futures of other sovereign rates markets permitted (i.e., Euro Bund futures)?

**Answer: Futures are limited to the exchanges and contracts shown in Table 5 of the investment guidelines.**

29. Are BAs (Banker Acceptances) allowed? In particularly CAD ones

**Answer: Banker acceptances are not eligible.**

30. Are CAD provincials and housing bonds permitted?

**Answer: Eligible sectors in the investment guidelines include local authorities (e.g., states and provinces). They also include Mortgage-backed securities (MBS), but they are restricted to those where the underlying is issued/guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.**

31. There is no mentioning of ARMs (adjustable-rate mortgages) will they be permitted?

**Answer: Yes**

32. In order to avoid any forced sales, we would recommend a downgrade bucket to BBB to be considered (typically it can be ~5%). We would also be comfortable having a cure period. Please let us know your thoughts

**Answer: All Investment Guidelines apply at the time of purchase of an investment. In the case an investment becomes noncompliant after this (e.g., a credit rating downgrade), the external manager must ensure that the portfolio is compliant with the Investment Guidelines no later than 20 business days after the event. We do not foresee including a downgrade bucket to BBB. Some specifics regarding the investment guidelines could be discussed later with the designated manager. The Foreign Reserves Committee must approve any change to the guidelines.**

33. For the currency deviations section, we assume that the 8% maximum aggregate currency exposure is only applicable to active currency positions (aggregate short and long positions: e.g., 4% long EUR and 4% short USD aggregate to an 8% position). Any non-USD positions hedged back to USD would not count towards this guideline parameter. Please confirm if our understanding is correct

**Answer: As per Note 7 of the investment guidelines, the aggregate currency exposure shall be calculated as the sum of all currencies that have a net long position against the Benchmark.**

34. The max aggregate exposure of active currency bets is 8%, does this mean (based on Note 7) that the overall net long position vs the benchmark is being considered? If so, what does the +/- 4% in unhedged active currency exposure pertain to?

**Answer: As per Note 7 of the investment guidelines, the aggregate currency exposure shall be calculated as the sum of all currencies that have a net long position against the Benchmark. The +/- 4% in unhedged active currency exposure pertains to the maximum individual deviation allowed to any of the eligible currencies.**

35. Guideline 4.1.5 (Currency deviations): Does the +/- limit apply to USD too?

**Answer: Yes.**

36. Guideline 4.1.5 (Currency deviations). For the aggregate currency exposure (8%) it says in Note 7 of the investment guidelines: "The aggregate currency exposure shall be calculated as the sum of all currencies

*that have a net long position against the Benchmark.” Does it mean that if we are short a currency vs USD, we don’t count it in this aggregate exposure? Does it include the USD if we are long USD vs benchmark?*

***Answer: if the portfolio has a net long USD position against the benchmark, it counts into the aggregate currency exposure.***

37. Does BdIR allow external managers to trade FX swaps?

***Answer: FX Swaps are allowed. Not to be confused with cross-currency swaps. The latter are not allowed.***

38. Guideline 4.1 (Market Risk) says, “with respect to the Benchmark”. Does it mean that Table 2 is also vs benchmark?

***Answer: Yes***

39. Guideline 4.1.1 (Maximum limits): In table 2 and the below notes, we understand that the ABS exposure should be max 3.5%, but should we include the ABS exposure within the max 7% corporate limit?

***Answer: Yes***

40. With the max allocation to Corporates at 7%, how should we read the issuer limit of Max% of the portfolio for AAA-rated Corporates and Gov’t-related at 10%?

***Answer: The maximum allocation to corporates (7%) applies to the aggregate of corporate investments with more than 100 days to maturity. The issuer limit for corporates rated AAA applies to the issuer exposure.***

41. Based on Note 5, does the allocation to TBAs and CMOs count towards the 7% Corporate Credit limit or the 23% MBS Sector limit?

***Answer: The allocation to TBAs and CMOs count towards the 23% MBS sector limit. Additionally, since they are considered to be credit exposure to the corresponding agency, allocation will also count towards the government-related issuer limits.***

42. Can you confirm that the max notional amount for Futures is 25% of the overall AUM of the portfolio?

***Answer: No. The sum of the notional amounts (in absolute value) of all net futures, TBA and currency forward positions shall not exceed the market value of the portfolio (100%). For futures on interest rates, only 25% of the notional amount should be considered in the calculation.***

43. Minimum credit rating is A+/A1/A+ for corporates but we can invest on ETF which have an average rating lower than that. Can you confirm?

***Answer: Correct***

44. Can you please confirm that the lower of a minimum two credit ratings count?

***Answer: The minimum credit rating corresponds to the lowest long term credit rating issued by S&P, Moody’s and Fitch Ratings, taking into account that the issuer /issue must be rated by at***

**least two of these agencies. If there are more than two credit ratings, the minimum of all of them will be considered.**

45. In case one or more of the credit rating agencies (S&P, Moody's, Fitch) rates an issue or issuer with a short-term credit rating, this must be A1/P1/F1 or higher: does this only apply to money market instruments or is this additional criterion for all bonds?

**Answer: This is an additional criterion for all bonds.**

46. We would just like to highlight the fact that max 10% per FX counterparty might be tight if we have a limited number of counterparties, particularly when we have to roll currency forwards. Our leverage temporarily doubles between when the new rolls are traded and when the old forward legs settle. Meaning that with a counterparty limit of 10%, if we have a global currency exposure of 5% or more with one counterparty, we will need to split the new roll between two counterparties. This would increase the operational risk and have an impact on the competitiveness of the negotiated FX rates. Would it be possible to increase this limit to 15% or 20%?

**Answer: We do not foresee an increase in this limit. Some specifics regarding the investment guidelines could be discussed later with the designated manager. The Foreign Reserves Committee must approve any change to the guidelines.**

47. Leverage: Max 100% with this leverage definition might prove a bit tight in certain circumstances if we want to implement curve positions/ country spreads positions, invest in non-USD bonds, and hedge the currency exposure, and at the same time implement some active FX exposure. This would be the case in particular if we want to implement steepening positions, where we need to buy a large amount of 2y futures to build some modified duration exposure on 2y rates (50 bps of MD on 2y US futures requires 25% exposure on 2yr Notes). Would it be possible to increase this limit?

**Answer: We do not foresee an increase in this limit. Some specifics regarding the investment guidelines could be discussed later with the designated manager. The Foreign Reserves Committee must approve any change to the guidelines.**

## LEGAL

48. Regarding the two following statements, can you please provide more clarity on what the "required terms" details will be, any further clarity on these points will be appreciated.

- if an asset / security is established under an agreement (e.g., transactions under an ISDA Master Agreement or an MSFTA) that is in the name of the Bank, the asset manager must comply with required terms that will be provided in the Discretionary Management Agreement"
- the BdIR is considering to be included under the external manager's umbrella ISFA Master Agreements, among others, subject to the compliance by the external manager of the required terms."

**Answer: As indicated in the section "The Bank's Discretionary Management Agreement" on pages 4 and 5 of the RFP, the "required terms" are principally focused on the following matters: (i) limitation of recourse for losses arising out of the investment activities of the external manager to the given portion of assets under management with the external manager (except**

*to the extent required by applicable law), (ii) limitation on cross-defaults (except to the extent required by applicable law), (iii) limitation of liens and payment and other netting under the given manager agreement to assets managed by the external manager, and no other portions of the Bank's assets or the Foreign Reserves generally and (iv) reservation of the Bank's sovereign immunity. Please note that the Bank is focused on maintaining its sovereign immunity to the maximum extent possible, and that the Bank expects its external managers to not agree to express waivers of, and specifically reserve, the Bank's sovereign immunity (or negotiate modifications of any such express waivers found) in Manager Agreements.*

## ANNEX 1

49. Could you confirm if we are missing any requirement between the below:

- Responses to RFP – potentially various emails with the various documents, including RFP file as such.
- Certification satisfying minimum requirements – duly signed letterhead
- Audited financial statements asset manager or parent
- Certificate of good standing
- Certificate of incumbency for authorized signatories – is notarization requested?
- SOC 1 or ISAE 3492 or equivalent
- Registration as asset manager including translation into English

*Answer: Compliance Certification duly signed (in the form of Annex 2 attached hereto) is also required. Please note that answers to the tables in the RFP must be provided in the excel spreadsheet named "rfp-tables-2021.xls" attached to the RFP publication. The Bank expects to receive it as a separate file in the email. Regarding the question as if notarization is requested for the Certificate of incumbency, it is ultimately up to each Candidate to ensure that its signatory is duly authorized to bind the Candidate under applicable law and processes under its constitutive documents and practices of its home jurisdiction. This would include as to whether notarization is required. The Bank is not imposing, or expressing any view as to, additional requirements, including notarization, upon Candidates.*

## ANNEX 2: COMPLIANCE CERTIFICATION

50. is the annex 2 in lieu or in addition to the certificate of incumbency?

*Answer: The annex 2 is in addition, the main purpose is to verify the entity's eligibility or qualification. Meanwhile, as indicated in the section "Required Minimum Selection Criteria" on page 6 of the RFP, the Certificate of Incumbency is a document for "attesting the signatory's authority to sign the Compliance Certification and to make this certification".*

51. Do you need notarization? (question for ID data seems to imply this)

*Answer: No, notarization is not necessary.*



52. The link in the RFP to the document <http://www.banrep.gov.co/sites/default/files/paginas%20/informacion-cargos-nivel-directivo-asesor-control-y-miembros-jd-planta.pdf> Unfortunately does not work, could you kindly provide it?

**Answer: Please find the correct link below:**

**<https://www.banrep.gov.co/sites/default/files/paginas/informacion-cargos-nivel-directivo-asesor-control-y-miembros-jd-planta.pdf>**

53. Are any of the 4 potentially informative files in the link Marco normativo de adquisiciones | Banco de la República (banco central de Colombia) (banrep.gov.co) available in English please?

**Answer: No, an English version is not available. If the Candidate requires a translation of these documents, the latter will be the one to carry out the translation on their own. In any case, it is clarified that for legal purposes, the provisions of the document in Spanish will prevail over any other version in other languages.**

54. Could you kindly share with us information which helps us to better understand what it means to be in “ineligible or unqualified, in accordance with the aforementioned Regime and Article 8 of Law 80 of 1993 (Colombian Law)”?

**Answer: Please find the Article 8 of Law 80 of 1993 (Colombian Law) in the following link: [http://www.secretariassenado.gov.co/senado/basedoc/ley\\_0080\\_1993.html#8](http://www.secretariassenado.gov.co/senado/basedoc/ley_0080_1993.html#8)**

**If the Candidate requires a translation of this, the latter will be the one to carry out the translation on their own. In any case, it is clarified that for legal purposes, the provisions of this Colombian law in Spanish will prevail over any version in other languages.**

## ANNEX 3

55. Annex 3 refers to the data protection regulation in Colombia, something we are not familiar with at this stage. We checked the link [http://www.banrep.gov.co/proteccion-datos\[1\]personales](http://www.banrep.gov.co/proteccion-datos[1]personales) and have only found Spanish legal texts. Would the BdLR have the respective English translations available so we may understand what we would be signing?

**Answer: Please find the English translation in the following link: <https://www.banrep.gov.co/en/general-policies-and-guidelines-personal-data-protection> which contains ‘Banco de la República’s General Policies and Guidelines on Personal Data Protection’. Please note that the Spanish version prevails over the English translation.**

56. Provided we could sign, would that apply to our list of authorized signatories or only the two signatories for the RFP?

**Answer: “As provided in the Schedule of the RFP (please see page 2 of the RFP), the Bank will select and inform the finalists of the selection process following its evaluation of the Proposals. Following this, the RFP provides that officers from the Bank anticipate visiting finalists in their offices or conducting telephone or video conferences as required in order to gain a better understanding of the key aspects of their proposal, including training. The Bank expects such visits or meetings to occur during February 2022, in each case based on the Bank’s schedule.**

***In this connection, the RFP (please see page 3) states the following: At its sole discretion, the Bank reserves the right to conduct interviews of finalists remotely via telephone or videoconference (e.g., Microsoft Teams, Webex, Zoom) in lieu of in person meetings. The Bank also reserves the right, at its sole discretion, to record such telephone or videoconference interviews. The Responsible Party shall be solely responsible and liable for ensuring that all the employees of the Responsible Party and other persons attending the interview on its behalf have provided all consents and authorizations as required by applicable laws and regulations for the Bank to record such telephone or videoconference interviews. Prior to such interviews, the Responsible Party shall send to the Bank via e-mail to this e-mail address Investmentmanager2021@banrep.gov.co the executed form provided in Annex 3, duly executed by the employees of the Responsible Party and other persons attending the interview.***

***Accordingly, the "Authorization for the processing of personal data (image) of a person of age for internal use by Banco de la República" (in the form of Annex 3) shall be completed and duly executed by each of the employees of the Responsible Party and other persons attending the interview on its behalf, prior to such interviews, and the Responsible Party shall send such forms to the Bank as per the terms of the RFP".***

57. Is a completed Annex 3 due along with the delivery of the Proposal or would this authorization only be required after finalists are selected?

***Answer: Please refer to the Bank's response to question 56 above.***

58. Does Banco de la República accept alternative forms of identification in place of the Passport number for the signers of each Annex 2 and Annex 3? If so, what would be acceptable?

***Answer: Yes. In exchange to Passport number, it is acceptable to fill Annex 2 and 3 with identification numbers (ID or DNI) authorized in your given jurisdiction***