

**TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF ILLINOIS**

Low Duration Fixed Income Mandate

External Manager

CANDIDATE PROFILE

Posted January 31, 2025

Deadline February 28, 2025

PROJECT PARAMETERS

1. Manager Style:

The Teachers' Retirement System of the State of Illinois (TRS) is seeking one or more managers with an active approach to manage a target range of 1.0% to 3.0% of the \$15+ billion global income allocation. The ideal strategy will be benchmarked to the Bloomberg US Aggregate1-3 Years index and this mandate will reside within TRS's Low Duration composite. Prospective strategies can allocate to credit sectors not included in the index. The allocation will be contingent on the ability of potential managers to consistently outperform the Bloomberg US Aggregate 1-3 Year Index and the risk level required to achieve the returns. The preferred tracking error level for prospective strategies is below 3.0% with targeted excess returns of at least 0.50%, over a full market cycle.

2. Manager Type:

Investment advisers: must be registered with the SEC or a bank under the Investment Advisors Act of 1940. Firms that are devoted to managing assets for tax exempt accounts are preferred. If not registered in the U.S., other bona fide regulatory countries and jurisdictions may be considered. This includes investment counselors and investment counseling subsidiaries of banks, brokers, and insurance companies.

3. Emerging Investment Managers:

Emerging investment managers are encouraged to submit information. Candidates meeting the definition of "emerging investment manager" as defined by Illinois State law¹ and meeting the performance screening criteria set forth in this Candidate Profile and offering a strategy with at least \$500 million in assets under management shall be identified in the screening process as eligible emerging managers. Any finalist firm that successfully passes due diligence review and fee and contract negotiations may be invited to present to the Investment Committee of the TRS Board of Trustees.

4. Amount to Be Allocated:

The mandate is subject to the manager(s) selected but is expected to range from \$200 million up to \$400 million. TRS intends to hire one or more managers in conjunction with the existing debt structure.

¹ 40 ILCS 5/1-109.1(4)

5. Investment Vehicles:

Preference is a separate account; however, fund structures will be considered. Fees will be based on total assets placed.

SELECTION PROCESS

6. Identification of Candidates:

RVK, TRS's investment consultant, will identify appropriate candidates based on product information submitted. **Please submit data and other pertinent information to RVK by sending an email to TRSI.LD.2025@rvkinc.com and indicate "2025 Low Duration Fixed Income Search" in the subject line.**

List the name of your firm and product (or custom product) for consideration, as well as current contact information. Please utilize December 31, 2024, data. Please direct any questions to TRSI.LD.2025@rvkinc.com and indicate "2025 Low Duration Fixed Income Search" in the subject line.

7. Selection of Semi-finalist Candidates:

RVK and TRS staff will evaluate organizational, strategy, process and performance factors of initial candidates and will select a group of semi-finalists for further evaluation. RVK will prepare an in-depth analysis of the semi-finalists for consideration by TRS and RVK staff. Based on this analysis, two to four candidates will be recommended for further review.

8. Selection of Finalists:

RVK and TRS staff will interview the finalist candidates. The successful candidate(s) will be selected from the finalists. All contracts and fee negotiations must be completed prior to final hire.

SELECTION CRITERIA

Business and Organizational Factors

9. Total Product Assets:

TRS would prefer to retain a manager with at least \$10.0 billion in combined low duration fixed income product assets and with at least \$500 million in the proposed strategy. Managers with a stable and well-diversified client base that includes other public pension funds of similar size to TRS are preferred.

10. Years' Experience in Managing Tax-Exempt Funds:

Candidate should have been in business for a minimum of five years or, if recently established, employ principals who have ten years of investment experience and possess a documentable track record.

11. Experience and Stability of Professional Staff:

It is essential that candidates exhibit organizational stability and have compensation and ownership programs that provide reasonable assurance of their ability to retain key investment professionals. Key members of the portfolio management team should have been managing beta core plus portfolios for at least five years and have at least three years tenure at the candidate firm.

12. Geographic Location:

TRS does not have specifications regarding geographic location, but wishes to build a solid, long-term relationship with the manager. The manager will be required to attend on-site annual meetings, and an on-site presentation will be required for the finalist candidates. The managers must be able to conveniently meet TRS servicing requirements.

13. Involvement with Other Business:

Each case will be judged on its individual merits; obvious conflicts of interest will be avoided. It is preferred the primary focus of the organization is money management. No placement, broker, solicitors, or any third-party intermediary "finder fees" will be allowed or payable under any circumstances in connection with the selection of managers to manage TRS assets.

14. Financial Well-Being of Firm:

Candidates should be able to demonstrate a high probability of continuing commitment to the investment management of institutional defined benefit plans and have the financial resources to weather a poor business environment without significant change in their investment process or organization.

Fiduciary insurance is required. The amount of minimum coverage is provided in the IMA (provided at semifinalist stage). The ADVs of candidate firms will be reviewed to uncover any past or current securities litigation, securities law violations or SEC censure. Any such issues may be subject to further questions and clarification by the TRS staff.

15. Long Range Plan:

The firm should be professionally managed and have a long-range business plan, demonstrating a commitment to institutional defined benefit plan management. The candidates should have a controlled growth policy (e.g. limits on accounts per manager or assets per product) and provide reasonable assurance that they will be capable of absorbing additional assets both from TRS and other accounts, without altering their basic investment philosophy and approach.

16. Information Security, Disaster Recovery and Business Continuity

Candidates should be able to demonstrate they have implemented and maintain information security programs with appropriate physical, technical and administrative safeguards and processes to protect client information. Further, candidates should be able to demonstrate they have developed and employed disaster recovery and business continuity plans and processes to ensure the performance of services to clients.

Investment Process Factors

17. Investment Style:

Candidate firms must have a philosophy and approach that has been clearly articulated and consistently applied. The risk level relative to the respective indices mentioned in Section 1 should be a consideration in portfolio construction.

18. Manager Guidelines and Investment Management Agreement:

Managers will be expected to conform to agreed upon applicable TRS parameters and sign the Investment Management Agreement (“IMA”). A sample IMA in the form required to be executed by the successful candidate firm will be provided to semifinalists. The successful firm must be willing and able to execute an agreement in the form of the sample IMA. Certain provisions mandated by the State of Illinois to be included in contracts with agencies of the State of Illinois are never subject to negotiation. Only Appendices B (Investment Parameters) and C (Fee Schedule) of the IMA are negotiable. Commingled funds, including offshore accounts, will be considered, in which case the TRS IMA will not apply. Applicable Illinois law still applies.

Client Service Factors

19. Client Communications and Rapport:

The firm must be service-oriented and exhibit high sensitivity to individual client needs through good communication. Reports and communication from advisors should satisfy the investment policy requirements. The ability to communicate in clear, easily understood terms is very important. Portfolio managers should be capable of clearly articulating their investment process and explaining it through favorable and non-favorable market conditions. The candidates should be willing to meet with TRS annually, at minimum, and at other times as TRS requires.

Performance Factors

20. Minimum Performance Record:

Candidates should have at least a five-year track record in the proposed strategy or a substantially similar strategy managed by the same team using the same process. If the track record is shorter than five years, the principal managers must have a successful record of managing similar portfolios for five years prior to the inception of the product under consideration.

21. Performance Screening Criteria:

Performance screening will focus on consistency of returns over time. Consideration will be given to risk-adjusted measures. The candidates should have a risk level, as measured by historical standard deviation that is at least commensurate with the return achieved. Candidates should demonstrate risk-adjusted performance, as measured by Sharpe ratio, which compares favorably to the indices mentioned in Section 1. Preference will be given to candidates with tracking error levels below 3.0% and excess returns of at least 0.5%, over a full market cycle.

22. Performance Comparisons:

Performance of the selected manager will be evaluated relative to the peer group provided by RVK.

Other Factors

23. Desirable Qualities:

- Well-established organization
- Consistent approach
- Disciplined investment process
- Depth of portfolio management and research personnel
- Institutional focus
- Consistent performance over time
- Strong communication skills

24. Fees:

Fees will be evaluated relative to industry norms and minimized to the extent possible. TRS will request proposals for performance-based fees as well as asset-based fees from all finalist candidates. TRS will require a Most Favored Nation (“MFN”) clause in the Investment Management Agreement.

25. Restricted Company Act;

Firms are subject to 40 ILCS 5/1-110.16, as amended from time to time (the “Restricted Company Act”), relating to investments in companies that are designated by the Illinois Investment Policy Board as restricted companies, and must comply with the System’s monitoring and reporting requirements under the Restricted Company Act and other applicable Illinois law.

QUESTIONS:

If any questions arise during this process, please contact RVK.