

**Teachers' Retirement System  
of the State of Illinois**



**REQUEST FOR PROPOSALS FOR  
REAL ESTATE AND REAL ASSET INVESTMENT CONSULTANT  
SERVICES**

**Issued July 17, 2024**

**Responses due 2:00 CDT, Wednesday, August 14, 2024**

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## **I. INTRODUCTION**

The Teachers' Retirement System of the State of Illinois (the System or TRS) is requesting proposals to provide real estate and real asset investment consultant services to assist the System in making prudent investment decisions related to the TRS investment program. The objective of this Request for Proposal is to solicit competitive proposals from qualified firms in sufficient detail to permit objective evaluation of all proposals which may result in a contract to provide real estate and real asset investment consulting services to the Teachers' Retirement System.

TRS is committed to increasing racial, ethnic, and gender diversity in all aspects of its utilization of vendors to provide goods and services to the System, to the greatest extent feasible, and within the bounds of financial and fiduciary prudence. To that end, the System strongly encourages qualified minority, female, disabled, and veteran-owned firms to submit proposals to this RFP.

A Proposer's preparation and submittal of a proposal or subsequent participation in presentations or contract negotiations creates no obligation on the System to award a contract or to pay any associated costs. All proposals and related materials will be retained by the System and will be subject to disclosure as required in accordance with the Illinois Freedom of Information Act.

## **II. SUMMARY DESCRIPTION OF TRS**

The General Assembly created the Teachers' Retirement System of the State of Illinois (TRS or the System) in 1939. TRS administers a multiple-employer public pension plan to provide its members with retirement, disability, and death benefits. Membership is mandatory for all full-time, part-time, and substitute Illinois public school personnel employed outside the city of Chicago in positions requiring certification by the Illinois State Board of Education. Persons employed at certain state agencies relating to education are also TRS members. The System serves over 448,000 members and had over \$70 billion in assets held in trust for its membership as of March 31, 2024.

The retirement system is administered as a qualified plan under the Internal Revenue Code. TRS benefits and investments are governed by Articles 1, 16, and 20 of the Illinois Pension Code, 40 ILCS 5. Funding comes from member contributions, contributions by TRS-covered employers, the state of Illinois, and investment income. The System's most recent Annual Comprehensive Financial Report as well as a variety of other information about TRS is available on the TRS website at <https://www.trsil.org>.

A Board of Trustees (the Board) is responsible for the general administration of the System, including the duties granted to it under Article 16 of the Illinois Pension Code, 40 ILCS 5/16. Under the direction of the Executive Director employed by the Board, the day-to-day administration of the System is delegated to the System's staff. The main office is in Springfield, Illinois, with a regional counseling office in Lisle and an investment office in Chicago, Illinois.

Using the combined resources of external investment managers, consultants, and internal staff, TRS invests the trust assets in accordance with general fiduciary rules of both state and federal

laws and the Investment Policy adopted by the Board. The market value of the TRS total fund on March 31, 2024 was \$70.40 billion. Below is the asset allocation as of March 31, 2024.

Asset Class	3/31/24 Total Fund \$ Millions	% of Portfolio
Equity Composite	\$36,695.2	52.1%
Income Composite	19,051.5	27.1
Real Assets Composite	12,270.2	17.4
Diversifying Strategies Composite	2,387.7	3.4
<b>Total Fund</b>	<b>\$70,404.6</b>	<b>100.0%</b>

The real estate and real asset investment consulting firm will collaborate with TRS’s general investment consultant on allocation risk/return issues and work with TRS on its \$12.2 billion real estate and real asset portfolio as administered by a five-person staff (Investment Staff) reporting through two Senior Investment Officers directly to the Executive Director/Chief Investment Officer.

The TRS real estate portfolio has the following characteristics (as of 12/31/23):

- The real estate portfolio has a long-term target of 16%
  - 15.6% real estate
- The real estate portfolio has a long-term target of 40%-70% core, 10%-30% value-add, and 20-40% opportunistic
  - 55.1% Core
  - 20.7% Value-add
  - 24.2% Opportunistic
- Diversified geographically by property type with long-term targets of 10%-35% residential, 10%-35% industrial, 10%-35% office, 10%-35% retail, 0%-10% hotel and 0%-10% other.
  - 21.6% Residential
  - 33.9% Industrial
  - 16.8% Office
  - 12.7% Retail
  - 4.8% Hotel
  - 10.2% Other
- 50.1% of the portfolio is separate accounts with four (4) managers

- Triennial appraisal cycle on separate accounts and annual revaluations as of June 30.
- The separate accounts have a preferred provider for legal services and appraisal services
- The separate accounts have annual portfolio audits performed
- 32.1% closed-end commingled funds
- 17.9% open-end commingled funds

The TRS real assets portfolio has the following characteristics (as of 12/31/23):

- The real assets portfolio has a long-term target of 2%
  - 2.9% real assets
- The real assets portfolio by risk and return characteristics
  - 15.4% Core
  - 80.4% Value-add
  - 4.2% Opportunistic
- Diversified by sector with long-term targets of 50%-85% infrastructure, 0%-30% agriculture, 0%-25% timber and 0%-20% special situations.
  - 88.2% Infrastructure
  - 2.8% Agriculture
  - 0% Timber
  - 9% Special Situations
- 84.6% closed-end commingled funds
- 15.4% open-end commingled funds

### **III. SERVICES REQUIRED**

#### **Scope of Work (SOW)**

The System is seeking a real estate and real asset investment consulting firm to advise the System on an ongoing basis in matters involving the management of the real estate and real asset portfolios. The consultant will act as a fiduciary to the System. Responding firms must demonstrate experience and expertise in all matters relative to the real estate and real asset portfolios. All responding firms must meet the highest standards of professional competence and ethics.

Under the direction of the Board, Executive Director, Chief Investment Officer and Investment Staff, the services to be provided by the real estate and real asset investment consulting firm shall include, but are not limited to, the following:

## **A. General**

1. Review TRS Real Estate and Real Asset Strategic Plan and Annual Tactical Plan and Real Estate Policy and Procedures and Guidelines.
2. Prepare recommendations for amendments or modifications to the above with justification as warranted by changes in the marketplace or best practices.
3. Assist Investment Staff in development of Annual Tactical Plan and recommend changes to the Strategic Plan as appropriate.
4. Present the Annual Tactical plan to the Board of Trustees.
5. Maintain a broad database of real estate and real asset managers and products.
6. Attend meetings of the TRS Investment Committee of the TRS Board of Trustees and other meetings as required. Generally, the Board will generally meet once per year to review the real estate and real assets portfolio. The meetings are generally held in person in either Springfield, IL or Chicago/Rosemont/Naperville, IL; however, other locations may also be required.
7. Present real estate and real asset performance to the Board of Trustees as needed.
8. Work in conjunction with Investment Staff on an ongoing basis to implement TRS real estate and real asset investment policy.

## **B. Asset Allocation**

Collaborate with TRS's general investment consultant and Investment staff on TRS portfolio allocation issues, i.e. real estate and real asset return expectations.

## **C. Manager Search and Selection**

1. Assist staff in the screening of the available investment manager and investment product universe.
2. Assist staff as necessary in the due diligence process with regard to candidate firms.
3. Provide appropriate research and analysis to evaluate investment manager candidates and investment products in order to assist in recommendations of finalist(s) for Board of Trustee consideration and selection.
4. Provide a timely consultant report regarding new real estate and real asset investments being proposed by Staff for investment. These reports will include an opinion regarding the suitability of the investment for TRS.

5. Provide a timely consultant report regarding real estate and real asset investment term changes or other actions being proposed by investment managers. These reports will include an opinion regarding the suitability of agreeing to such action for TRS.
6. On an as needed basis attend and represent Investment Staff at commingled fund advisory meetings.
7. On an as needed basis attend and represent Investment Staff during asset tours or related meetings.
8. Participate in annual meetings (typically 2-3 days) with Investment Staff and all separate account managers for the annual review of real estate investment managers.

**D. Performance Measurement and Reporting**

1. Prepare quarterly evaluation reports on the performance of TRS's investment managers including a comparison with the performance of other managers and appropriate peer universes.
2. Provide TRS with quarterly and annual performance analysis, including statistical and risk analysis, at the TRS real estate and real asset portfolio level.
3. Work with TRS's general investment consultant and master trustee to provide or reconcile returns for each real estate manager as well as a composite real estate and real asset return.

**E. Research and Analysis**

Prepare comprehensive analysis and advice on specific real estate and real asset investment issues as requested by the Board and Staff.

## **IV. PROPOSAL CONTENT**

At a minimum, the proposal must include the following information to be considered for the engagement. For ease of review, each requirement should be addressed in a separate section preceded by an index tab to identify the subject of the section. The proposal should be formatted on consecutively numbered pages and include a table of contents. Failure to provide information in the prescribed format may result in rejection of the proposal. All responses will be subject to verification for accuracy. **Proposals containing false or misleading information will be rejected.**

**1. Indexed Table of Contents**

The proposal must include an indexed table of contents to facilitate the review process.

## 2. Cover Letter

A cover letter, which will be considered an integral part of the proposal package, in the form of a standard business letter, must be signed by an individual authorized to bind the Proposer contractually. This cover letter must indicate the signer is so authorized, and must indicate the signer's title or position. An unsigned proposal will be rejected. The cover letter must also include:

- a. A statement that the proposal meets all requirements of this RFP, and that the offer tendered by the proposal will remain in full force and effect until, and may be accepted by the Teachers' Retirement System of the State of Illinois, at any time prior to December 31, 2024.
- b. A statement certifying that the Proposer either: (a) it is not required to register or (b) it is registered as a business entity with the State Board of Elections pursuant to the Procurement Code, 30 ILCS 500/20-160 and acknowledges a continuing duty to update such registration pursuant to the Procurement Code; and that Proposer acknowledges that any Agreement awarded as a result of this RFP is voidable under Section 50-60 of the Procurement Code if the Proposer fails to comply with the business entity registration requirements. **30 ILCS 500/20-160; 30 ILCS 500/50-60.**
- c. A statement that the proposal is being made without fraud or collusion; that the Proposer has not offered or received any finder's fees, inducements, or any other form of remuneration, monetary or non-monetary, from any individual or entity; and that the Proposer has not conferred or promised to confer, on any individual or entity, any payment, loan, advance, services, or any other form of remuneration in connection with the award of this engagement.
- d. A disclosure of any current business relationship or any current negotiations for prospective business with TRS, or with any member of the Board of Trustees, Chief Investment Officer or Investment staff, or any party currently rendering services to TRS.
- e. **A statement that the Proposer is willing to enter into an agreement in the form attached to the RFP as Appendix G including all certifications and representations contained therein, and that the Proposer acknowledges and understands that certain general provisions in the sample agreement mandated by Illinois state law to be included in contracts with agencies of the State of Illinois are not subject to negotiation.**
- f. A statement that the Proposer acknowledges that all documents submitted in response to this RFP may be subject to disclosure under the Illinois Freedom of Information Act, 5 ILCS 140, and the Illinois Open Meetings Act, 5 ILCS 120. TRS must comply with the Illinois Freedom of Information Act (5 ILCS 140/1 et seq.) TRS cannot represent or guarantee that any information submitted in response to this request for proposal will



be confidential. No documentation will be provided under FOIA until the contract has been awarded.

- g. An attestation by the signer that the information provided in the Proposal is true and accurate, and that the signer is aware that pursuant to the Illinois Pension Code, 40 ILCS 5/1-135, any person who knowingly makes any false statement or falsifies or permits to be falsified any record of a retirement system or pension fund created under this Code (i.e., the System) in an attempt to defraud the retirement system or pension fund is guilty of a Class 3 felony.

### **3. Vendor Type Verification Form**

Proposers must complete and return the Vendor Type Verification form in the form contained in Appendix A.

### **4. Statement of Minimum Qualifications**

Proposers must complete and return the Minimum Qualifications Certification in the form contained in Appendix B.

### **5. Reference Checks**

Reference checks may be conducted for each finalist. Please provide a reference authorization letter in the format prescribed in Appendix C.

### **6. Questionnaire**

The questionnaire contained in Appendix D to this RFP must be completed and returned as part of the proposal

### **7. Fee Proposal**

Proposers must submit their fee proposal in the format prescribed in Appendix E. Any deviation from the prescribed format which in the opinion of TRS is material may result in the rejection of the proposal. The proposed fee shall include all expenses for providing the services to TRS as described in this RFP.

### **8. Contract**

This Request for Proposal is neither a contract nor meant to serve as a contract.

It is anticipated that one of the proposals submitted in response to this Request for Proposal may be selected as the basis for negotiation of a contract with the Proposer. Such a contract is presently contemplated to contain, at a minimum, the terms and conditions set forth in the sample agreement included as Appendix G but will also incorporate the terms of the proposal submitted, as finally negotiated and approved by the System. TRS reserves the right to

negotiate additions, deletions, or modifications to the sample agreement and/or the terms of proposals submitted.

Certain provisions in the sample agreement are required by the State of Illinois and are therefore not subject to negotiation. **Thus it is critically important that vendors submitting proposals clearly and thoroughly identify any and all contractual concerns in their written proposal.** A Proposer that waits until contract negotiation to object to TRS contract terms may be precluded from further consideration.

## **V. SUBMISSION OF PROPOSALS**

All proposals must be received at the address designated below **no later than 2:00 P.M. CDT on Wednesday, August 14, 2024. (Late submissions will be rejected as unresponsive).** Proposals should be in an Adobe Acrobat format and should be emailed to Holly Walton at [bidsubmissions@trsil.org](mailto:bidsubmissions@trsil.org). Subject must contain **“Response to Request for Proposals for Real Estate and Real Asset Investment Consultant Services– Name of Responder.”** Failure to clearly identify the proposal in the subject line may result in the rejection of the proposal. Only email submissions will be accepted. Paper submissions will be rejected as non-conforming. TRS is not responsible for receipt of any proposal which is improperly labeled. An email confirmation will be sent confirming receipt of the proposal.

The proposals become the property of TRS upon submission. All costs for developing proposals and attending presentations and/or interviews are entirely the responsibility of the Proposer and shall not be chargeable to TRS.

Only one proposal from an individual, vendor, partnership, corporation, or combination thereof, will be considered for this assignment.

## **VI. EVALUATION PROCESS**

### **A. Pre-Evaluation Review**

All proposals will be reviewed to determine if they contain all the required submittals specified in this RFP. Those not submitting all required information in the prescribed format will be rejected.

### **B. Proposal Evaluation**

All proposals received by TRS on or before the deadline listed above will be reviewed to determine whether they meet the minimum requirements of this RFP.

All proposals that are received by the deadline and pass the pre-evaluation review will undergo an evaluation process conducted by Investment Staff. TRS will consider the following factors in the evaluation process, ranked in no specific order, and will render a decision based on the perceived best fit and best value for the engagement. Cost will be one of the determining

factors in this decision but will not be the primary determinative. Proposals will be evaluated based on criteria including:

- Experience, qualifications and level of commitment of assigned staff
- Documented ability to produce performance reports (using master trustee data) on income and appreciation return including the ability to compare to the NCREIF Property and ODCE Index for return performance, geographic diversification and property type return specifically for real estate investments.
- Depth of experience in providing services to large public pension plans with major real estate and real asset commitments.
- Evidenced ability to solicit, evaluate, document and recommend for selection successful investment managers and products.
- Conflict of interest considerations.
- Research capabilities for the real estate and real asset industry.
- Research capabilities for minority participation, social engineering investing and best procurement practices.
- Firm stability evidenced by years in the industry, ownership structure, staff retention and client base.
- Searchable database product and manager due diligence reports.
- Cost

During the evaluation process, Proposers may be requested to provide additional information and/or clarify contents of their proposal. Other than information requested by TRS, no Proposer will be allowed to alter the proposal or add new information after the filing date. Any requested additional information shall not be communicated directly to the evaluation team. Please send to [bidsubmissions@trsil.org](mailto:bidsubmissions@trsil.org) and it will be communicated internally to the evaluation team.

Finalists may be scheduled for one or more oral presentations or interviews with Investment Staff. Not all Proposers may be asked to participate. Finalist interviews will be approximately 1 hour and may be scheduled at the TRS office or on-site at the finalist’s office or designated alternate location at the discretion of TRS. Further, finalists may be asked to present their credentials and program specifics to the Board of Trustees at a public meeting. No expenses or costs associated with interviews or Board presentations will be paid or reimbursed by TRS. TRS may require contract and fee negotiations to be completed prior to any presentation or interview. Once finalists are selected, fees may be subject to a “best and final” offer process to be determined at the discretion of the System.

## **VII. ANTICIPATED TIMELINE**

*Subject to change at TRS discretion*

RFP Issued	Wednesday, July 17, 2024
Responder Questions Due	12:00 p.m. CDT, Tuesday, July 30 2024
TRS responses to questions	4:30 p.m. CDT, Friday, August 2, 2024

RFP Responses Due	2:00 p.m. CDT, Wednesday, August 14, 2024
Semi-Finalist Springfield Interviews	September 23-October 11, 2024
Finalists Selected & Notified	October 14, 2024
Finalist Onsite	October-November 2024
Firm(s) Selected	December 13, 2024

## VIII. GENERAL CONDITIONS

### A. Questions/Clarification of the RFP

Interested Proposers are expected to respond to this RFP to the best of their understanding. Questions from interested Proposers should be submitted in writing to Holly Walton at the following email address: [Purchasing@trsil.org](mailto:Purchasing@trsil.org). Questions must be submitted by **12:00 p.m. CDT on Tuesday, July 30 2024**. The subject of the email should read: “**re Questions-Real Estate and Real Assets Investment Consulting**”. The System will not respond individually to a submitted question. If a response is deemed necessary or appropriate in the System’s discretion, the System will post questions and responses to our website by **4:30 p.m. CDT on Friday, August 2, 2024**. Proposers must not contact TRS staff about this RFP except as outlined above for Q&A. If a Proposer discovers an error in this RFP, the Proposer should immediately notify TRS of such error in writing to Holly Walton at the following email address: [Purchasing@trsil.org](mailto:Purchasing@trsil.org). If deemed necessary or appropriate in the System’s discretion, TRS may clarify or modify any part of this RFP by posting notice on the TRS Web site prior to the proposal deadline.

### B. Restrictions on Communication

Proposers must not discuss or share the contents of their proposals with other potential proposers. TRS policy and the Illinois state ethics law strictly limit communication during the search process. **Any attempt to initiate contact with Investment Staff, the Chief Investment Officer or Board, other than as specifically stated in this RFP, may disqualify the Proposer from further consideration.**

### C. Prior Deficiencies

A Proposer that is or has been deficient in current or recent contract performance in dealing with TRS or other clients may be disqualified unless the deficiency is shown to have been beyond the reasonable control of the Proposer. TRS may reject a proposal from any Proposer that is in default on any debt owed to, or contract with, TRS or other clients, or that is in default as surety or otherwise, upon any obligation to TRS, or has failed to perform faithfully any previous contract with TRS. Proposers that are newly formed business concerns having substantially the same owners, officers, directors, or beneficiaries as a previously existing non-responsible Proposer may be disqualified unless the new organization can prove it was not set up for the purpose of avoiding an earlier declaration of non-responsibility.

#### **D. Reservation of Rights**

TRS reserves the right to withdraw this RFP, to accept or reject any or all proposals submitted, and to waive any immaterial deviation, defect, or irregularity, whenever it would be in the best interest of TRS to do so. Waiver of an immaterial deviation shall in no way modify the Request for Proposal or excuse a Proposer from full compliance with all RFP requirements.

Proposals that contain false or misleading statements or that provide references which do not support an attribute or condition claimed by the Proposer will be rejected. Issuance of the Request for Proposal creates no obligation to award a contract or to pay any costs incurred in the preparation of a proposal. Nothing in this RFP or any resulting contract shall preclude TRS from procuring services similar to those described herein from other sources.

#### **E. No Confidentiality**

Proposals and all materials submitted in response to this RFP cannot be considered confidential except as provided below. All proposals and related materials will be retained by TRS and will be subject to disclosure as required in accordance with the Illinois Freedom of Information Act, 5 ILCS 140 (“Illinois FOIA”). Simply marking all or portions of the proposal as “Proprietary” or “Confidential” will not protect it from disclosure in the event that a public record request is received. If a proposer is submitting proprietary information or strategies with the proposal, the proposer should submit, along with the un-redacted proposal, a redacted copy that removes only that material considered to be a trade secret, competitively sensitive, proprietary, privileged, or confidential such that disclosure would cause competitive harm to the proposer. By submitting a redacted copy, the proposer affirmatively represents that all redacted material falls within one or more applicable exemptions under the Illinois FOIA (5 ILCS 140/7). If TRS becomes subject to administrative or legal challenge concerning the redactions, it shall be the sole responsibility of the proposer to justify its redactions and provide TRS with written explanation concerning how each redaction falls within an applicable exemption. TRS shall not be responsible for assisting the proposer in making any determinations regarding the applicability of any exemptions available under the Illinois FOIA.

#### **F. Equal Opportunity**

TRS does not discriminate because of actual or perceived race, color, religion, sex, sexual orientation, age, marital status, pregnancy, order of protection status, military status, certain unfavorable discharges from military service, political affiliation, citizenship, ancestry, national origin, physical or mental disability, genetic information, or any other characteristic protected by law. It is the System’s intent to comply with all state, federal, and local equal employment opportunity laws and public policies.

#### **G. Selection, Negotiation, Additional Information**

TRS is not bound to accept the lowest priced proposal. TRS reserves the right to negotiate with any Proposer or Proposers. TRS reserves the right to request additional information of clarification on any matter included in the proposal. The selected proposal will be the most

advantageous offer for TRS determined by evaluation and comparison of other factors in addition to cost or price.

Prior to award, TRS may negotiate with the highest ranked respondent(s) for the purposes of:

- Resolving minor differences in the services proposed compared to the services requested in this RFP;
- Clarifying details, responsibilities, and proposed activities;
- Emphasizing important issues; Receiving assurances from respondent(s), and;
- Exploring ways to improve the final contract.

If after a period of three days of negotiations, TRS cannot come to agreement with the highest ranked respondent(s), TRS reserves the right to cancel the selection of that respondent(s) and negotiate with another responsive proposer.

TRS shall have the right at any time to cancel this RFP and to either not award or contact or re-issue the RFP with changes if it is in the best interest of TRS to do so.

#### **H. Clarification of Proposal**

Proposers may be asked to clarify or further explain their proposal. Any clarification will be submitted in writing by the Proposer and will be considered part of the proposal. Refusal by a Proposer to comply with this requirement will be cause for rejection of the proposal.

## **APPENDIX A: VENDOR TYPE VERIFICATION FORM**

Please complete the information below as it applies to you/your company. This form must be included with your proposal.

Female Owned Business - Must be 51% independently owned by female(s) \_\_\_\_\_

Minority Owned Business - Must be 51% independently owned by minority(s) \_\_\_\_\_

Persons with Disability Business - Must be 51% independently owned by disabled person(s) \_\_\_\_\_

Combination of Above – Any combination of one or more of the three classes above which collectively represents at least 51% ownership \_\_\_\_\_

Veteran Owned Business - Must be 51% independently owned by veteran(s) \_\_\_\_\_

None of the above \_\_\_\_\_

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Representative Signature \_\_\_\_\_ Date \_\_\_\_\_

**APPENDIX B: STATEMENT OF MINIMUM QUALIFICATIONS**

(Firm Name) \_\_\_\_\_ certifies that it meets the following minimum qualifications.

Please initial each as applicable.

- 1. \_\_\_\_\_ Currently providing real estate and real asset investment consulting services to clients whose combined assets (all asset classes) total at least \$30 billion, and to client(s) whose combine assets for real estate and real assets total at least \$3 billion.
- 2. \_\_\_\_\_ The firm has at least five years’ experience in conducting real estate and real asset manager searches for public plan fund clients.
- 3. \_\_\_\_\_ As of December 31, 2023, the firm has at least five institutional pension fund clients.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Title: \_\_\_\_\_



**APPENDIX C: REFERENCE AUTHORIZATION LETTER**  
*[On prospective vendor letterhead]*

[Month, Day, Year]

[Reference Name]  
[Reference Title]  
[Company Name]  
[Reference Address]  
[City, State, Zip]

Dear [Reference Name]:

*(Prospective Vendor Name)* has submitted a proposal to the Teachers' Retirement System of the State of Illinois ("System") with regard to providing Real Estate and Real Assets Investment Consultant Services. The System is conducting its due diligence with regard to *(Prospective Vendor Name)*. Through this written authorization, *(Prospective Vendor Name)* hereby authorizes any individual, business, corporation, retirement system, state agency, or other entity to release any facts and information it may have concerning *(Prospective Vendor Name)*, its principals, employees and agents, to the System.

A copy of this authorization may be used as if it were an original. Thank you for your assistance.

Sincerely,

*(Prospective Vendor Name)*

*(Authorized Signature and Title)*

cc: R. Stanley Rupnik, CFA, Executive Director and CIO, TRS

## **APPENDIX D: QUESTIONNAIRE**

The following questionnaire must be completed and included with your response to this RFP. Type your responses in the same order as the questionnaire, listing the question first followed by your answer.

### **A. Prospective Vendor Information**

Name \_\_\_\_\_ of \_\_\_\_\_ Prospective \_\_\_\_\_ Vendor: \_\_\_\_\_

Mailing Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Federal Employer Identification Number: \_\_\_\_\_

Contact Person(s):

Name: \_\_\_\_\_ Phone: \_\_\_\_\_

Title: \_\_\_\_\_ Fax: \_\_\_\_\_

Email: \_\_\_\_\_ Website: \_\_\_\_\_

### **B. General Information**

1. Is the firm a registered investment advisor under the Investment Company Act of 1940? If yes, please provide the firm's SEC File Number.
2. Will the firm contractually agree to be a fiduciary to TRS?
3. Provide a brief history of your firm and its operation. Include the year formed, ownership, structure, biographies of the principals, affiliations, profit sharing programs, and ownership changes in the last five years. Describe your firm's growth objectives and your plans for managing that projected growth.
4. Provide a list of senior personnel who have left your firm over the last three years. Include their title, role at the firm, tenure at the firm, departure date, as well as who replaced them if they were replaced. Discuss, especially from the client perspective, the procedures for managing the loss of a senior professional from your firm.
5. Please provide an organizational chart of your firm.
6. How many minorities, women, disabled people and veterans are employed at your firm, especially at the executive and professional level?

7. Explain how the firm controls the quality of service provided to the clients, the number of consultants in the firm, and the average number of clients assigned per consultant. What is the maximum number of clients per consultant you maintain?
8. What is your firm's mission statement? What do you see as your organization's strongest area of expertise?
9. Provide the names, portfolio sizes and lengths of engagements for the client base using your real estate and real asset services for: (a) performance measurement consulting, (b) manager searches, (c) asset allocation consulting or related applications.
10. List your firm's professional staff indicating which person(s) will be assigned to TRS along with a detailed biography for each and their current responsibilities. Also, provide the number of funds and total assets being managed by each professional.
11. Provide details as to who will perform assignments outlined herein.
12. Provide a listing of clients lost or gained during the past five years. List size of the fund and the reason for ending the relationship(s).
13. Has there been any litigation against your firm or its principal/owners/officers in the last five years? If yes, please explain.
14. Will the firm contractually agree to disclose all potential and actual conflicts of interest, and will it annually disclose all sources of firm revenue and all business relationships and affiliations?
15. Will the firm contractually agree to identify and quantify all business relationships with investment managers who are finalists in a TRS search process?
16. Are there circumstances under which your firm or any individual in your firm receives compensation, finder's fees or any other financial benefit from third parties? If yes, provide a list of such parties, the services provided for such amounts, and the amounts received.
17. Provide the coverage amount and name of carrier for: fiduciary liability insurance, errors & omission insurance, and any other applicable insurance.
18. Provide a copy of the current affirmative action plan and ethics policy for your firm.
19. Diversity is a core value at TRS. Please describe your firm's approach to diversity and inclusion. Describe the steps you have taken to advance minorities, women, disabled people and veterans in your firm and the investment industry.

### **C. Asset Allocation Model**

1. Describe how your firm is prepared to consult with TRS and its retainer consultant on asset allocation changes and other issues related to the total portfolio.
2. What trends does your firm foresee within the real estate and real asset classes in the future?

#### **D. Manager Search Process and Asset Allocation Implementation**

1. Describe in detail your real estate and real asset manager database and search process.
2. Provide a final report for a recently completed real estate and real asset manager search.
3. Explain how firms enter your search universe. Are there any charges or costs to the firms? How do they "get a foot in the door" of your database?
4. Please explain your firm's policy for the inclusion of minority- and female-owned investment managers within your database. How might these managers be included in your client's investment program?
5. Describe the frequency and magnitude of manager turnover resulting from performance evaluation, portfolio reviews or asset allocation changes resulting from the optimization strategy provided to your clients.
6. How many real estate and real asset managers are retained by your average client?
7. What do you think is the optimum allocation to a single real estate and real asset investment manager?
8. Have you ever assisted any clients in the development and/or evaluation of economically targeted investments or other "social" programs? Provide a brief outline of your experiences, if any, and your general view of the role of such programs in pension plans such as TRS.
9. Explain how due diligence reviews are performed and at what point your firm believes such reviews would be initiated. Do you initiate such reviews or do you wait for instructions from your client to do so? How frequently are these reviews completed?
10. Provide a copy of a recently completed external investment manager due diligence review.
11. Describe your capabilities to evaluate specialty asset managers, i.e., agriculture, timber, hotels, etc. Please discuss your firm's strengths and weaknesses in evaluating non-traditional asset managers.
12. What are your firm's views on direct investment versus fund-of funds investing?
13. Describe your firm's capabilities to assist staff in the monitoring and oversight of co-investment portfolios.

14. Provide a copy of your discretionary real estate and real asset product performance and discretionary consulting client's real estate and real asset performance versus applicable benchmarks on either a time weighted or money weighted basis as appropriate.

## **E. Operational Support**

1. Please describe the proprietary or external accounting and operational systems utilized for manager and asset level reporting.
2. Please describe the internal capabilities and resources available to track TRS asset level holdings for both comingled funds and direct investments.
3. Please describe your firm's Limited Partnership Agreement compliance and monitoring.
4. Please describe the processes used to assist clients with LPAC Investment Committee governance and issue review process, general partner correspondence, etc. and any client reporting available on such matters.
5. Please describe the Accounting/Operational support for capital draws, cash distributions, management fees, etc. and any processes/reporting available.
6. Please describe the processes used to assist clients with annual audit requirements and/or confirmations.
7. Please describe the reporting process for quarterly and annual reports, including timing of reporting, method of delivery (online portal vs email delivery only), etc.
8. Please describe your firm's performance reporting including carried interest monitoring and reporting, methods of verifying information as provided by managers, and any benchmarks used to assess performance.

## **F. Reference Information**

1. Please supply a list of your five largest clients and include the size of their real estate and real asset fund and length of service.
2. Please list all public fund clients. Include the size of their real estate and real asset portfolios and length of service to them.
3. Please provide four references including at least one public fund client and one corporate client. Include name, title, fund, address, and phone number. References should also list the name of the primary consultant(s) currently servicing the account.

## **G. General Disclosures**

1. Please list all services your firm, its principals or any affiliate(s) provide that generate revenues for the firm and indicate the applicable percent of your firm's total revenue during the past three years.

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Revenues from consulting with plan sponsors	_____ %	_____ %	_____ %
Revenues from real estate and real asset investment activities			_____ %
_____ % _____ %			
Revenues from services to real estate investment managers	_____ %	_____ %	_____ %
Revenues from services to real asset investment managers	_____ %	_____ %	_____ %
Other (please list)	_____ %	_____ %	_____ %

2. Does your firm, its principals, or any affiliate, own any part of a money management firm, broker-dealer or other organization that sells services to institutional investors and/or SEC registered investment advisors? If so, identify the firm(s) and describe the relationship.
3. Has your firm, its principals or affiliate ever (i) been the focus of a non-routine Securities and Exchange Commission (SEC) inquiry or investigation or a similar inquiry or investigation from any similar federal, state or self-regulatory body or organization, (ii) been a party to any litigation concerning fiduciary responsibility or other investment related matters, or (iii) submitted a claim to your errors and omissions, fiduciary, liability, and/or fidelity bond insurance carrier(s)? If your firm answered yes to any of these questions, please provide details.
4. Please list all real estate and real asset investment firms from which your firm, its principals, or any affiliates receive compensation. Please identify these revenues sources as client directed, payment for services, and/or revenues not related to a letter of direction or specific services. (Please mark all that apply.)

Firm Name	Client Directed	Real Estate/Real Asset Investment Services	Non-Client Non-Service Related Revenues
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

## Appendix E: Fee Proposal

TRS will evaluate fee structures for full retainer services as well as unbundled services. Please quote fees in hard dollars for the following services. Please detail the scope of services to be provided under such an arrangement and provide quotes for any additional services.

**Full Retainer:**

- A. Annual fee for full-service real estate and real asset consulting arrangement \$ \_\_\_\_\_

**Unbundled Services:**

- B. Annual fee for quarterly performance measurement and portfolio monitoring reports \$ \_\_\_\_\_
- C. Fee for manager search projects \$ \_\_\_\_\_
- D. Fee for co-investment monitoring \$ \_\_\_\_\_

**Additional Services/Fee Clarification(s):**

- E. TRS pays for its services using hard dollars only. Will your firm agree that neither the firm nor any employee or owner of the firm will receive any commission or fee, directly or indirectly, arising from securities in which TRS invests?
- F. Are all related travel expenses of the investment consultant pertaining to attendance at Board meetings and onsite meetings included in your fee proposal?
- G. Are there any services that your firm could provide that would add value to TRS's real estate and real asset portfolio that are not included in the fee proposal? If so, please provide the service(s) and corresponding fee.
- H. Does your firm offer bundled fees for full retainer consulting services across multiple asset classes?

## **APPENDIX F: TRS REAL ESTATE AND REAL ASSET INVESTMENT MANAGERS (as of 7/01/2024)**

<b>TRS Managers/Fund Relationships</b>
<b>Separate Accounts:</b> Barings Heitman Lincoln Property Company Principal
<b>Commingled Funds:</b> Black River Agriculture Fund 2 Blackstone Asia I, II, III Blackstone Real Estate Partners VI, VII, VIII, IX, X Carlyle (CEREP III) Dyal Project Zeus Co-Investment Elion Industrial Fund II, L.P. EQT Exeter Industrial Value Fund IV, V, VI EQT Exeter Industrial Core Fund III Fortress Japan III, IV, V Fortress Real Estate Opportunities Fund IV Gateway RE Partners IV, VII Invesco Commercial Mortgage Income Fund I KKR Diversified Core Infrastructure Strategy KKR RE Partners Americas III LaSalle Asia Opportunity Fund IV, VI Lion Industrial Trust Lone Star Real Estate Funds IV, V, VI Macquarie European Infrastructure Fund VI Blue Owl Real Estate NLP Fund Blue Owl Real Estate Funds III, IV, V Rockpoint V, VI, VII Sheridan Production Partners III-B Starwood IX, X, XI, XII, XIII Starwood Retail Co-Investment Starwood Project Whale Co-Investment Starwood TMI Co-Investment Starwood Value-Add Fund I, II Stonepeak Infrastructure Partners IV, V Strategic Partners Infrastructure III Tristan Capital Partners – EPISO V, VI Walton Street RE Funds IV, VI, VII Walton Street RE Core-Plus Fund Westbrook X, XI



## **Appendix G: [Sample] Master Services Agreement (Real Estate and Real Asset Investment Consultant)**

This MASTER SERVICES AGREEMENT (this “Agreement”) is made and entered into this [ ] day of [ ], 2024 by and between the Teachers’ Retirement System of the State of Illinois (“TRS” or the “System”), a retirement system established under and pursuant to the laws of the State of Illinois, and \*[NAME], (“Contractor”), a \*[LEGAL STATUS], with offices at \*[ADDRESS].

WHEREAS, the System established the Teachers’ Retirement System of the State of Illinois Master Trust Agreement (the “Master Trust”) to facilitate the management, acquisition and disposition of the funds and reserves of the System;

WHEREAS, the System wishes to appoint the Contractor as a real estate and real assets investment consultant of the defined benefit plan assets of the Master Trust pursuant to Illinois law to assist the System in achieving its investment objectives and ensure prudent management of TRS trust assets; and

WHEREAS, the System has determined through the RFP process that Contractor meets all qualifications described in the RFP to perform the Work set forth herein;

NOW THEREFORE, In accordance with the terms and conditions of this Agreement, Contractor agrees to provide the Work to the System as more fully detailed below:

1. **Definitions:** Capitalized terms used in this Agreement that are not defined in context shall have the meanings ascribed to such terms in Exhibit A (Definitions).
2. **Services:**
  - 2.1. **Generally:** The System hereby appoints the Contractor as a real estate and real asset consultant and investment adviser of the defined benefit assets of the Master Trust, and the Contractor hereby accepts such appointment. By accepting such appointment, the Contractor agrees that at all times it shall act in accordance with the terms and conditions of this Agreement, which includes the Request for Proposal for Real Estate and Real Asset Investment Consultant Services issued on July 17, 2024 (the “RFP”), Contractor’s response to the RFP (the “RFP Response”), and Exhibit C, the System’s investment policy for the defined benefit plan, as amended (“Investment Policy”). Under the direction of the Board, Executive Director, Chief Investment Officer or a designee, the services to be provided by the Contractor shall include, but are not limited to, the following: [AS AGREED].
  - 2.2. **SLAs and Maintenance:** If the Work contains Deliverables that are software, then [the RFP] shall set out support and maintenance obligations and service level agreements (if applicable) for such Deliverables.

3. **Term of the Agreement:** The professional services under this Agreement shall be provided between date of execution and December 31, 2029 (not to exceed five years) unless earlier terminated in accordance with this Agreement. The term of this Agreement may not be extended.
4. **Compensation:**
  - 4.1. The System shall pay the fees as set forth in [the RFP Response] (the “Fees”). Contractor shall not be entitled to increase the Fees unless the System provides prior written approval, and such approval may be withheld for any reason and at any time.
  - 4.2. The Fees shall be inclusive of all normal business expenses, including all overhead expenses associated with Contractor’s business, such as clerical time and overtime, computer usage, telephone calls, tele-facsimiles, photocopying, and mailing an express delivery expenses.
  - 4.3. All out-of-pocket expenses attributable to performance of the Work under this Agreement and attendance of Contractor’s personnel at all regular meetings of the System’s Board of Trustees and the Investment Committee thereof, including without limitation, transportation, lodging, and meals during the period of travel, shall be at Contractor’s own expense, and the System shall have no obligation to reimburse Contractor for any such out-of-pocket expenses.
  - 4.4. Unless otherwise agreed by the System and stated in this Agreement, this Agreement does not allow for reimbursement of any expenses incurred by Contractor, including but not limited to telephone, facsimile, Internet, or other communications device, computer, postage, delivery, copying, travel, transportation, lodging, food and per diem, clerical time, and overtime.
5. **Billing:** Contractor shall submit quarterly invoices for the Work provided hereunder in accordance with terms outlined below:
  - 5.1. By submitting an invoice, Contractor represents, warrants, and certifies that the Work provided meets all requirements of the Agreement, that the amount billed is as allowed in the Agreement, and that any expenses billed are reimbursable under this Agreement.
  - 5.2. Invoices shall be signed by Contractor and shall set out Contractor’s social security number or FEIN. All invoices shall include reasonable detail explaining the basis for the invoiced amounts, and Contractor shall provide additional supporting material upon the System’s reasonable request.
  - 5.3. Invoices submitted by Contractor for the Work performed prior to July 1 must be presented to the System no later than July 15 of that year in order to ensure payment under this Agreement. Failure by Contractor to seek payment of invoices prior to July 15 may require Contractor to seek payment in the Illinois Court of Claims.

- 5.4. Contractor shall not bill for any taxes unless accompanied by proof that TRS is subject to the tax. If necessary, Contractor may request the applicable Illinois tax exemption number and federal tax exemption information.
6. **Compliance with Investment Law and Policies:** In acting as an investment consultant hereunder, Contractor, its employees, agents, and subcontractors shall act at all times in accordance with all applicable requirements of the Illinois Pension Code, 40 ILCS 5/1, and 40 ILCS 5/16-179, and any other applicable requirements under the laws of the State of Illinois, and all federal, state, and local laws, rules, ordinances, regulations, orders, federal circulars, and all license and permit requirements in the performance of this Agreement. Contractor shall, at all times during the term of this Agreement, maintain compliance with all applicable tax requirements and be current in payment of such taxes. Contractor acknowledges receipt of the System's investment policy (the "Investment Policy") in effect as of the date of this Agreement, which document is attached hereto and fully incorporated herein as Appendix A. Contractor understands and agrees that such Investment Policy is subject to change and agrees that it shall act at all times in accordance with any written investment policies of the System in their most current version, which documents, in their most current version, shall be deemed fully incorporated herein by reference.
7. **Fiduciary:** In addition to, but not in lieu of any and all applicable fiduciary standards imposed under federal or state law, Contractor is a fiduciary with respect to the System and Contractor shall perform its duties under this Agreement with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in an enterprise of like character and with like aims. Termination of this Agreement does not release Contractor from any of its fiduciary duties and obligations with respect to the System. The Contractor's fiduciary obligations shall include, but are not limited to, the fiduciary duty of loyalty to take action and otherwise perform solely in the interest, and for the exclusive benefit of, the System and its beneficiaries. Except as expressly permitted under this Agreement or as disclosed in Part 2 of the Contractor's Form ADV, the Contractor shall not: (a) deal with the assets of the Master Trust in the Contractor's own interests or for its own account, or the account of its principals, employees, agents, subcontractors or its affiliates; (b) act in any transaction involving the assets of the Master Trust on behalf of a party, or represent a party, whose interests are adverse to the interest of the System or the System's beneficiaries, taken as a whole; (c) take any action or render any services when the Contractor's independence of judgment on behalf of the System is or could reasonably be affected; or (d) receive any consideration for its own account, or for the account of any of its principals, employees, agents, subcontractors or affiliates, from any party dealing with the System in connection with a transaction involving the assets of the Master Trust other than as contemplated hereunder.
8. **Payment:** Payments will be paid by the System in accordance with the Prompt Payment Act, 30 ILCS 540. Payment will be made by the System in the amount earned to the date of the applicable invoice, less previous partial payments. Final payment may be adjusted by the System if such adjustment is supported by a System audit. All recordkeeping shall be in accordance with generally accepted accounting principles (GAAP). TRS shall not be liable to pay for supplies or equipment provided or Work rendered, including related expenses incurred, prior to the Effective Date of this Agreement.

9. **Amendment and Changes:** This Agreement may be amended in writing from time to time by mutual consent of the parties. All amendments to this Agreement must be in writing and fully executed by the parties, except Appendix C, the System's Investment Policy, which may be amended from time to time by the System only, with written notice furnished to the Contractor.
10. **Applicable Law:** This Agreement and Contractor's obligations and Work hereunder are hereby made, and Contractor must perform its obligations under this Agreement and the Work, in compliance with all applicable federal and state laws. This Agreement shall be construed and governed in accordance with the laws of the State of Illinois to the extent that such laws are not pre-empted by the laws of the United States of America. By entering into this Agreement, each party agrees to submit to the exclusive jurisdiction of the state and federal courts of Illinois and agrees that any action or proceeding against the System arising out of or in connection with this Agreement shall be instituted in the Illinois Court of Claims. The System shall not enter into binding arbitration to resolve any dispute arising out of this Agreement. The System does not waive sovereign immunity by entering into this Agreement.
11. **Authorization:** Each party to this Agreement represents and warrants that: (a) it has the right, power, and authority to enter into and perform its obligations under this Agreement; (b) it has taken all requisite action (corporate, statutory, or otherwise) to approve execution, delivery, and performance of this Agreement; and (c) this Agreement constitutes a legal, valid, and binding obligation upon itself in accordance with its terms.
12. **Representations and Warranties:** Contractor represents, warrants, and covenants to the System as follows:
- 12.1. **Qualified Personnel:** That (a) the Work shall be performed in a good, workmanlike and timely manner, by fully qualified personnel; (b) while on the System premises, Contractor personnel shall conduct themselves in a professional and businesslike manner; and (c) Contractor will not act in a manner, which, in the System's opinion, has or is likely to have a material adverse effect on the System's business, operations, or reputation.
- 12.2. **General Performance:** That the Work shall be performed and be in compliance with all applicable laws, rules, regulations, Good Industry Practice, the RFP, the RFP Response, related Documentation, and the System's reasonable expectations.
- 12.3. **Non-Infringement:** The Work does not and shall not infringe or misappropriate any third party's Intellectual Property Rights.
- 12.4. **Reciprocal or Copyleft Open Source Software License:** Unless otherwise agreed to in this Agreement, the RFP, or the RFP Response, the Work does not, and shall not, include open source software. Contractor represents, warrants, and covenants that in no event shall the Work include any open source software licensed under a "reciprocal" or "copyleft" open source license (such as the GPL or MPL) that would require the

System to subsequently license or otherwise make available source code to a third party.

- 12.5. **Surreptitious Code:** With respect to any Deliverables that comprise or contain software or other computer-readable files, such Deliverables shall be free of viruses, material defects, worms, Trojan horses, destructive mechanisms, hidden or locked files, code that would cause any of the Deliverables to replicate, transmit or activate itself without control of a person operating the computer equipment on which it resides, code that would alter, damage or erase any data or computer programs without control of a person operating the computer equipment on which it resides (except to the extent expressly contemplated in the RFP), any key, node lock, time-out, “back door,” “trap door,” “booby trap,” “drop dead device,” “data scrambling device,” or other similar illicit code. Contractor covenants that no software or other files will be installed, executed or copied on the System’s equipment without the prior written approval of the System.
13. **Bankruptcy:** Contractor shall promptly notify the System if Contractor becomes insolvent, files a petition in bankruptcy, becomes a party to an involuntary bankruptcy proceeding, or makes an assignment for the benefit of creditors. In such an event, the System may immediately cancel all or any portion of this Agreement upon written notice.
14. **Building Security:** Contractor shall comply with the System’s security procedures and other written policies related to the System’s premises made available to Contractor during the time Contractor’s personnel are on the premises.
15. **Certifications and Conflicts:** Contractor certifies that it is not legally prohibited from contracting with TRS or the State of Illinois, has no known conflicts of interest, and further specifically certifies as follows:
  - 15.1. **Educational Loan:** Contractor, in accordance with the Educational Loan Default Act, is not in default on an educational loan. **5 ILCS 385.**
  - 15.2. **Ethics:** Contractor acknowledges that the employees and trustees of TRS are subject to the State Officials and Employees Ethics Act, that TRS has adopted a gift ban more restrictive than required by state law, and agrees to refrain from bestowing or offering gifts of any monetary or non-monetary value to TRS employees or trustees. **5 ILCS 430.**
  - 15.3. **Bribery:** Contractor has not been convicted of bribing or attempting to bribe an officer or employee of the State of Illinois or any other state, nor made an admission of guilt of such conduct that is a matter of record. TRS shall declare this Agreement void if this certification is false. **30 ILCS 500/50-5.**
  - 15.4. **Felony:** If Contractor has been convicted of a felony, at least five years has passed after the date of completion of the sentence for that felony, unless no person held responsible by a prosecutorial office for the facts upon which the conviction was based

continues to have any involvement with the business. TRS shall declare this Agreement void if this certification is false. **30 ILCS 500/50-10.**

- 15.5. **Sarbanes-Oxley:** If Contractor has been convicted of a felony under the Sarbanes-Oxley Act of 2002, or a Class 3 or Class 2 felony under the Illinois Securities Law of 1953, 815 ILCS 5, at least five years has passed from the date of conviction. Contractor is not barred from being awarded a contract under 30 ILCS 500/50-10.5, and acknowledges that TRS shall declare this Agreement void if this certification is false. **30 ILCS 500/50-10.5.**
- 15.6. **Debt Delinquency:** Contractor and its affiliates are not delinquent in the payment of any debt to the State, or if delinquent, have entered into a deferred payment plan to pay off the debt. Contractor further certifies that it is not barred from being awarded a contract under 30 ILCS 500/50-11, and acknowledges that TRS may declare this Agreement void if this certification is false, or if Contractor later becomes delinquent and has not entered into a deferred payment plan to pay off the debt. **30 ILCS 500/50-11; 30 ILCS 500/50-60.**
- 15.7. **Illinois Use Tax:** Contractor is not barred from being awarded a contract under 30 ILCS 500/50-12, and acknowledges that TRS may declare this Agreement void if this certification is false. Contractor shall collect and remit Illinois Use Tax on all sales of tangible personal property into the State of Illinois in accordance with the provisions of the Illinois Use Tax Act, and acknowledges that failure to comply can result in this Agreement being declared void. **30 ILCS 500/50-12.**
- 15.8. **Environmental Protection:** Contractor has not committed a willful or knowing violation of the Environmental Protection Act (EPA) relating to civil penalties within the last five years, and is therefore not barred from being awarded a contract. If this certification is later determined to be false, Contractor acknowledges that the System may declare this Agreement void. **30 ILCS 500/50-14.**
- 15.9. **Lead Poisoning:** Contractor is not in violation of the Illinois Procurement Code provision prohibiting owners of residential buildings who have committed a willful or knowing violation of the Lead Poisoning Prevention Act from doing business with the State until the violation is mitigated. **30 ILCS 500/14.5, 410 ILCS 45.**
- 15.10. **Conflict of Interest:** Contractor does not have any public or private interest, direct or indirect, and shall not acquire directly or indirectly any such interest which does or may conflict in any manner with Contractor's obligations under this Agreement. Contractor has disclosed, and agrees it is under a continuing obligation to disclose to TRS, financial or other interests, public or private, direct or indirect, that may be a potential conflict of interest or which would prohibit Contractor from entering into or continuing to perform under this Agreement. Contractor further certifies that, in the performance of this Agreement, no person having any such interest shall be employed by Contractor. If any elected or appointed State officer or employee, or spouse or minor child of same has any ownership or financial interest in Contractor or this Agreement, Contractor certifies that it has disclosed that information to TRS, and any waiver of the conflict

has been issued in accordance with applicable law and rule. Membership in the Teachers' Retirement System of the State of Illinois does not constitute a conflict of interest within the meaning of this paragraph. **30 ILCS 105/8.40, 30 ILCS 500/50-13, 30 ILCS 500/50-15, 30 ILCS 500/50-35.**

- 15.11. **Inducement:** Contractor has not offered or paid any money or valuable thing to induce any person not to bid for a State contract, and has not accepted any money or valuable thing, or acted upon the promise of same, for not bidding on a State contract. **30 ILCS 500/50-25.**
- 15.12. **Non-Solicitation:** Contractor has not employed or retained any company or person, other than a bona fide employee working solely for Contractor, to solicit or secure this Agreement, and has not paid or agreed to pay any company or person, other than a bona fide employee working solely for Contractor, any fee, commission, percentage, brokerage fee, gifts, or any other consideration contingent upon or resulting from the award of making of this Agreement.
- 15.13. **Revolving Door:** Contractor is not in violation of the “revolving door prohibition” on procurement activity relating to a State agency. **30 ILCS 500/50-30.**
- 15.14. **Anticompetitive Practices:** Contractor will report to the Illinois Attorney General and the Chief Procurement Officer any suspected collusion or other anticompetitive practice among any bidders, offerors, contractors, proposers, or employees of the State. **30 ILCS 500/50-40, 30 ILCS 500/50-45, 30 ILCS 500/50-50.**
- 15.15. **Business Entity Registration:** Contractor certifies either: (a) it is not required to register or (b) it is registered as a business entity with the State Board of Elections pursuant to the Procurement Code, 30 ILCS 500/20-160 and acknowledges a continuing duty to update such registration pursuant to the Procurement Code. Contractor acknowledges that this Agreement is voidable under Section 50-60 of the Procurement Code if Contractor fails to comply with the business entity registration requirements. **30 ILCS 500/20-160; 30 ILCS 500/50-60.**
- 15.16. **ERI:** Contractor has informed the System in writing if Contractor was formerly employed by the System and received an early retirement incentive prior to 1993 under 40 ILCS 5/14-108.3 or 16-133.3 of the Illinois Pension Code, and acknowledges that contracts made without the appropriate filing with the Auditor General are not payable from the “contractual services” or other appropriation line items. Contractor has not received an early retirement incentive in or after 2002 under 40 ILCS 5/14-108.3 or 40 ILCS 5/16-133.3 of the Illinois Pension Code, and acknowledges that contracts in violation of Section 15a of the State Finance Act are not payable from the “contractual services” or other appropriation line items. **30 ILCS 105/15a.**
- 15.17. **Drug Free Workplace:** Contractor will provide a drug free workplace and will not engage in the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance during the performance of this Agreement. This certification

applies to contracts of \$5,000 or more with individuals, and to entities with 25 or more employees. **30 ILCS 580.**

- 15.18. **International Boycott:** Neither Contractor, nor any substantially owned affiliate, is or shall participate in an international boycott in violation of the U.S. Export Administration Act of 1979 or applicable regulations of the U.S. Department of Commerce. This certification applies to contracts that exceed \$10,000. **30 ILCS 582.**
- 15.19. **Forced Labor:** In accordance with the State Prohibition of Goods from Forced Labor Act, no foreign-made equipment, materials, or supplies furnished under this Agreement have been or will be produced in whole or in part by forced labor, convict labor, or indentured labor under penal sanction. **30 ILCS 583.**
- 15.20. **Child Labor:** In accordance with the State Prohibition of Goods from Child Labor Act, no foreign-made equipment, materials, or supplies furnished under this Agreement have been or will be produced in whole or part by the labor of any child under the age of 12. **30 ILCS 584.**
- 15.21. **Bid Rigging/Rotating:** Contractor has not been convicted of bid rigging or bid rotating or any similar offense of any state or of the United States. **720 ILCS 5/33E-3, E-4.**
- 15.22. **Nondiscrimination/Equal Employment Opportunity:** Contractor will comply with applicable provisions of the State and Federal constitutions, laws, and regulations pertaining to unlawful discrimination, harassment, and equal employment opportunity, including but not limited to the U.S. Civil Rights Act, Section 504 of the Federal Rehabilitation Act, the Americans with Disabilities Act, the Public Works Employment Discrimination Act, and the Illinois Human Rights Act. **42 USC 12101 et seq., 775 ILCS 5, 775 ILCS 10.**
- 15.23. **Discriminatory Club:** Contractor does not pay dues or fees, or subsidize or otherwise reimburse its employees or agents for any dues or fees to any discriminatory club. **775 ILCS 25.**
- 15.24. **Affiliates:** Contractor shall disclose the names and addresses of (i) itself; (ii) any entity that is a parent of, or owns a controlling interest in Contractor; (iii) any entity that is a subsidiary of, or in which a controlling interest is owned by, Contractor; (iv) any persons who have an ownership or distributive income share in Contractor that is in excess of 7.5%; or (v) who serves as an executive officer of Contractor. **40 ILCS 5/1-113.14(c)(5).**
16. **Compliance with Law and Policies:** In acting as an investment consultant hereunder, Contractor, its employees, agents, and subcontractors shall act at all times in accordance with all applicable requirements of the Illinois Pension Code, 40 ILCS 5/1, and 40 ILCS 5/16-179, TRS investment procurement administrative rules (80 Ill. Admin. 1650.3000 – 1650.3045) and any other applicable requirements under the laws of the State of Illinois, and all federal, state, and local laws, rules, ordinances, regulations, orders, federal circulars, and all license and permit requirements in the performance of this Agreement. Contractor shall, at all times during



the Term of this Agreement, maintain compliance with all applicable tax requirements and be current in payment of such taxes. Contractor understands and agrees that the System's Investment Policy is subject to change and agrees that it shall act at all times in accordance with any written investment policies of the System in their most current version, which documents, in their most current version, shall be deemed fully incorporated herein by reference.

- 17. Confidential Data and Information:** Contractor, including its personnel, agents, and subcontractors, may have access to, collect, or receive confidential data, member records, or other information owned or maintained by the System in the course of carrying out its responsibilities under this Agreement that is (a) marked as "Confidential" or "Proprietary;" (b) is otherwise reasonably identifiable as the confidential or proprietary information of the System; or (c) should reasonably be understood to be the confidential or proprietary information of the System given the nature of the information and the circumstances surrounding its disclosure (collectively, "Confidential Information"). The System hereby designates all information received or accessed by Contractor pursuant to this Agreement as Confidential Information unless otherwise designated in writing by the System. Contractor shall not unnecessarily communicate such Confidential Information within Contractor's operations. No such Confidential Information shall be used for competitive purposes nor disclosed or disseminated except as authorized by law and with the written consent of the System, either during the period of this Agreement or thereafter. Contractor shall only access and use the Confidential Information of the System as required to and for the limited purpose of performing its obligations under this Agreement; *provided, that* Contractor may disclose the Confidential Information of the System to its employees, contractors, and professional advisors who need to know such information in order to perform their obligations related to this Agreement and who are contractually bound by confidentiality obligations that are at least as protective as those in this Agreement. Contractor shall use at least the same degree of care in safeguarding the System's Confidential Information as it uses in safeguarding its own Confidential Information, but shall not use less than reasonable care and diligence. Contractor must return all such Confidential Information, in whatever form it is maintained, promptly at the end of the Agreement or earlier at the request of the System, or shall notify the System in writing of its destruction. Except with respect to Personal Data for which there are no exceptions, the foregoing obligations do not apply to Confidential Information: (i) that is lawfully in the receiving party's possession prior to acquisition under this Agreement, (ii) that was received in good faith from a third party not subject to any confidentiality obligation, (iii) that is or becomes publicly known through no breach of confidentiality obligation, or (iv) that is independently developed by the receiving party without the use or benefit of the System's data or information. Contractor shall be responsible for any breach of this Agreement by its employees, representatives, and agents, and any third party to whom it discloses Confidential Information in accordance with this Agreement.
- 18. Consultant Disclosures:** In accordance with Illinois law and prior to the award of this Agreement, Contractor has made all required disclosures surrounding minority persons, women, persons with a disability, and businesses owned by the above, relative to Contractor's staff, contracts, and searches made by Contractor, and surrounding compensation and economic opportunity received from investment advisors, and will update

such disclosures each January 1 hereafter as required by law. 40 ILCS 5/1-113.21; 40 ILCS 5/1-113.22; 40 ILCS 5/1-113.23.

19. **Data Security:** To the extent that Contractor stores, hosts, processes, accesses, or otherwise handles System Information (as defined in Exhibit B), then such System Information shall be subject to the Data Security Addendum attached hereto as Exhibit B and incorporated herein by reference as if fully set forth herein.
20. **Contact Person:** Contractor's principal contact person for all Work rendered hereunder shall be [\_\_\_\_\_].
21. **Employment Status:** Contractor and all personnel that Contractor assigns to perform the Work under this Agreement are not employees of the System and amounts paid pursuant to this Agreement do not constitute compensation paid to any employee of the System. The System assumes no liability for actions of Contractor or its personnel under this Agreement and this Agreement is not subject to the State Employee Indemnification Act, as amended, 5 ILCS 350.
22. **Entire Agreement:** This Agreement, together with any exhibits or attachments hereto, constitutes the entire agreement between the parties concerning the subject matter of this Agreement, and supersedes all prior proposals and contracts between the parties concerning the subject matter of this Agreement. All provisions that by their nature would be expected to survive, shall survive termination. In the event of a conflict between the System's and Contractor's terms, conditions, and attachments, the System's terms, conditions, and attachments shall prevail.
23. **Execution of Originals:** This Agreement may be executed in two or more counterparts, any one of which shall be an original without reference to the others.
24. **FEIN Certification:** Under penalties of perjury, Contractor certifies that the legal name of business, taxpayer identification number, and legal status listed below are correct.

Contractor's legal name of business: \_\_\_\_\_

Taxpayer Identification Number: \_\_\_\_\_

Tax classification:

- S = S Corporation
- C = Corporation
- P = Partnership
- Individual/Sole Proprietor
- Limited Liability Company

25. **Finder's Fee:** Contractor certifies that no finder's fee or finder's commission, or third-party placement, marketing, solicitor's, consulting, or contingency fee, or any other consideration has been paid or shall be paid to any individual or organization, other than a bona fide employee working solely for Contractor, resulting from or related to the establishment of this investment consulting relationship with the System. Contractor shall fully disclose any direct

or indirect fees, commissions, penalties, or other compensation, including reimbursement for expenses that may be paid by or on behalf of Contractor in connection with the provision of services to the System, and acknowledges a continuing duty to update such disclosure promptly after a modification of those payments or an additional payment.

26. **Inability to Perform:** Contractor agrees that if, due to death, illness, departure, or any other occurrence, any principal or principals of Contractor become unable to perform the Work set forth in this Agreement, neither Contractor nor the surviving principals shall be relieved of their obligations to complete performance hereunder. Contractor may substitute other professionals to perform such Work only upon approval of the System. Contractor shall immediately notify the System of any occurrence resulting in the inability of any principal or principals of Contractor to perform the Work set forth in this Agreement, in which event the System, at its own option, may immediately terminate this Agreement upon written notice to Contractor.
27. **Indemnification:** Contractor shall indemnify, defend, save and hold harmless the System, its board members, trustees, officers, agents and employees, in both individual and official capacities, from and against any and all suits, actions, claims, demands, damages, losses, costs, and expenses, including attorney's fees and all expenses, arising out of or resulting from: (a) any claim that the services or deliverables provided, delivered or made available by Contractor infringe upon or misappropriate the Intellectual Property Rights (as defined in Section 41) or other property rights of a third party; (b) a material breach by Contractor or Contractor's officers, directors, employees, agents, or subcontractors of this Agreement, including the fiduciary standard of care; or (c) the fraud, negligence, or intentional misconduct of Contractor or Contractor's officers, directors, employees, agents or subcontractors. This paragraph is applicable to the full extent allowed by the laws of the State of Illinois and not beyond any extent that would render this paragraph void or unenforceable.
28. **Independent Contractor:** Contractor is an independent contractor in the performance of this Agreement, and is not an agent, employee, partner, or in joint venture with the System. All payments by the System shall be made on that basis. Contractor and its employees are not employees of the System and amounts paid pursuant to this Agreement do not constitute compensation paid to an employee of the System. All personnel performing Work pursuant to this Agreement are employees of Contractor, are treated as employees of Contractor for tax reporting purposes, and are provided all benefits of such employment that are provided or accrue to Contractor's employees, including, without limitation, health insurance, life insurance, disability insurance, workers' compensation, vacation, paid holidays, sick leave, and the like. The System assumes no liability for the actions of Contractor or its employees under this Agreement and this Agreement is not subject to the State Employee Indemnification Act, 5 ILCS 350.
29. **Insurance:**
- a) Contractor shall, at its sole cost and expense, procure and maintain on its own behalf, workers' compensation insurance in amounts equal to all statutory requirements. Contractor shall also carry, on its own behalf, commercial general liability insurance of at least \$5 million per occurrence. Contractor shall also carry, on its own behalf,

professional liability insurance of at least \$5 million. Contractor shall furnish the System a true and correct copy of each paid-up policy evidencing such insurance, or a certificate of the insurer certifying that such policy has been issued, prior to execution of this Agreement. Contractor shall also provide renewal certificates of insurance so long as this Agreement is in effect. Each policy shall provide that it may not be canceled or materially changed without sixty days prior written notice to the System.

- b) Contractor shall promptly notify the System in writing of any claims under any required insurance policies which, if valid, would have the effect of materially reducing the amount of insurance available under such policies or reducing the amount of insurance available under such policies to an amount lower than the limits provided herein and of any material developments relating to such claims.
- c) Contractor expressly understands and agrees that insurance coverage required by this Agreement or otherwise provided by Contractor shall in no way supersede, reduce, or otherwise limit Contractor's obligation to indemnify, defend, and hold harmless the System, its board members, officers, agents and employees, in both individual and official capacities, as provided in this Agreement.

30. **Nonexclusive Agreement:** Contractor understands, acknowledges, and agrees that Contractor does not have an exclusive agreement with the System to provide the supplies, equipment, and/or Work hereunder, and that the System may engage others to provide the same or similar goods and/or Work without any obligation to Contractor.

31. **Notices:** Notices and any other communication provided for herein shall be given in writing to the contacts designated below by registered or certified mail, return receipt requested, by receipted hand delivery, by courier (UPS, Federal Express, or other similar and reliable carrier), by email, or by fax showing the date and time of successful receipt. Each such notice shall be deemed to have been provided at the time it is actually received. By giving notice, either party may change the following contact information:

Contractor: [Company Name]  
Attention:  
[Mailing Address]  
[City, State Zip Code]  
Phone:  
Fax:  
Email:

TRS: Teachers' Retirement System of the State of Illinois  
Attention: Holly Walton, Purchasing Manager  
2815 W. Washington St., P.O. Box 19253  
Springfield, Illinois 62794-9253  
Phone: 217-814-2203  
Fax: 217-753-0969  
Email: [Purchasing@trsil.org](mailto:Purchasing@trsil.org)

32. **No Waiver:** Except as specifically waived in writing, failure by either party to exercise or enforce a right or obligation under this Agreement shall not affect any subsequent ability to exercise or enforce a right or obligation.
33. **Performance Review:** Contractor's performance of services pursuant to this Agreement is subject to annual review by the System's investment staff according to pre-established criteria, with the results of such performance review presented to the Investment Committee of the System's Board of Trustees
34. **Record Retention – Right to Audit:** Contractor and its subcontractors agree to comply with Section 20-65 of the Illinois Procurement Code, 30 ILCS 500/20-65, and shall maintain adequate books and records relating to the performance of this Agreement and necessary to support amounts charged to the System under this Agreement. Books and records, including information stored in databases or other computer systems, shall be maintained by Contractor and its subcontractors for a period of three years from the later of the date of final payment under the Agreement or completion of the Agreement. Such three-year period shall be extended for the duration of any audit in progress at the time of that period's expiration. Such books and records shall be available for review or audit by the Auditor General, other governmental entities with monitoring authority, and the System, upon reasonable notice and during normal business hours. Contractor and its subcontractors shall cooperate fully with any such review or audit. Failure to maintain such books and records shall establish a presumption in favor of the System for the recovery of any funds paid by the System under this Agreement for which adequate books and records are not available. Contractor shall not impose a charge or pass on fees or costs for review or audit of such books and records. Contractor shall take reasonable steps to ensure that its subcontractors are in compliance with this Section.
35. **Reporting:** Contractor, in conjunction with the System's investment staff, shall submit periodic reports, on at least a quarterly basis, for review by the Investment Committee of the System's Board of Trustees at its regularly scheduled meetings.
36. **RFP or Bid:** The System's RFP, and the Contractor' RFP Response, are hereby incorporated by reference into this Agreement as though fully set forth herein. To the extent that there are any conflicts between the RFP the RFP Response, and this Agreement, this Agreement shall prevail.
37. **Severability:** Any provision, covenant, or condition of this Agreement which is held by a court of competent jurisdiction to be invalid or not enforceable in any jurisdiction, shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.
38. **Solicitation of Employees:** Contractor agrees not to recruit, solicit, employ, or induce TRS personnel, directly or indirectly, to apply for employment with Contractor, during and for one year following the termination or expiration of this Agreement.
39. **Subcontracting and Assignment:**

- 39.1. This Agreement may not be assigned or transferred by Contractor, in whole or in part, without the prior written consent of the System. This Agreement shall be binding on the parties and their respective successors and permitted assigns. Any assignment in contravention of this Section shall be null and void and of no further effect.
- 39.2. If Contractor intends to utilize one or more subcontractors in the performance of this Agreement, Contractor shall provide prior written notice to the System identifying the names and addresses of all such subcontractors to be utilized by Contractor in the performance of this Agreement, together with a description of the Work to be performed by the subcontractor and the anticipated amount of money that each subcontractor will receive from Contractor for such Work. This Agreement shall apply to and bind all subcontractors utilized by Contractor in the performance of this Agreement as fully and completely as Contractor is hereby bound and obligated. For purposes of this Section, subcontractors are those specifically hired to perform all or part of the Work or to provide equipment or supplies covered by the Agreement.

#### **40. Termination:**

- 40.1. This Agreement may be terminated at any time by the mutual consent of the System and Contractor.
- 40.2. If either party is in material breach of any obligation under this Agreement, the non-breaching party may terminate this Agreement for cause upon written notice after (a) first providing the other party with written notice of the breach (a "Notice of Breach"), and (b) providing thereafter a thirty (30) day opportunity to cure beginning on the date of receipt by the alleged breaching party of the Notice of Breach (the "Cure Period"). If, the System determines that such material breach is not curable, then the System may exercise such termination right immediately without providing Contractor with the Cure Period.
- 40.3. Notwithstanding any contrary provision in this Agreement, this Agreement may be terminated at the option of the System whenever the System determines that such termination is in its best interests, upon 15 days' prior written notice to Contractor.
- 40.4. Upon notice of termination, Contractor shall cease provision of the Work under this Agreement, except Work that TRS directs in writing to be completed, and take all necessary or appropriate steps to limit disbursements and minimize costs, and cooperate in good faith with TRS during the transition period between notification of termination and substitution of any replacement contractor. Contractor shall be entitled to payment for satisfactory supplies, equipment and/or Work provided under the Agreement. In the event the System and Contractor cannot agree to the amount of payment due Contractor, Contractor will receive a percentage of payment provided under the Agreement equal to the percentage of Work completed prior to termination of the Agreement. Contractor shall immediately return to TRS any payments for supplies, equipment, or Work that were not rendered by Contractor.

Termination of this Agreement shall not relieve either party of any obligations hereunder which were incurred prior to the date upon which the termination is effective.

#### 41. Use and Ownership:

- 41.1. **System Ownership of Deliverables:** Unless otherwise specified in this Agreement, and except for Pre-Existing Contractor Materials, Contractor acknowledges and agrees that, as between the parties, the System is the sole and exclusive owner of all the right, title, and interest, in and to the Work, including all associated Intellectual Property Rights. Contractor hereby assigns and transfers to the System all right, title, and interest in and to such Work including any related Intellectual Property Rights, and/or waives any and all claims that Contractor may have to such Work including the so-called “moral rights” in connection with the Work. Confidential Information and other System Information contained in the Work shall be subject to all confidentiality and data security provisions of this Agreement.
- 41.2. **Grant of Rights to the System in Pre-Existing Contractor Materials:** To the extent that Contractor incorporates Pre-Existing Contractor Materials into the Work, Contractor, under its Intellectual Property Rights, hereby grants to the System a perpetual, irrevocable, worldwide, non-exclusive, transferrable, sublicensable, fully paid-up, royalty-free license to access, use, and exploit as it sees fit the Pre-Existing Contractor Materials as incorporated into the Work.
- 41.3. **Bankruptcy Code Section 365(n):** The licenses granted to the System herein are rights to “intellectual property” for purposes of Section 365(n) of the U.S. Bankruptcy Code, and the System shall be entitled to exercise all rights provided by Section 365(n). Contractor agrees that it shall not interfere with the System’s exercise of such rights, and further agrees that the System shall maintain the licenses under the terms of this Agreement, even if Contractor ceases operations or is purchased or merges into another entity.
- 41.4. **No Implied Rights:** Nothing in this Agreement shall be construed to grant either party any rights other than those expressly provided herein. Any rights granted to a party under this Agreement must be expressly provided herein, and there shall be no implied rights pursuant to this Agreement, based on any course of conduct or other construction or interpretation thereof. All rights and licenses not expressly granted herein are reserved.
42. **Non-Publicity:** Contractor agrees that (a) it shall not use the System’s (and its affiliates’) names, logos, tag lines, or any other identifying information in any manner, including, but not limited to, in advertisements, publications, press releases, articles, websites, or social media, without the System’s prior written approval (the “Publicity Prohibition”), which may be withheld, conditioned, or withdrawn for any reason, and (b) the Publicity Prohibition applies to the System and all of its related or affiliated entities.
43. **Remedies Cumulative:** No right or remedy in this Agreement conferred upon or reserved to either party is intended to be exclusive of any other right or remedy, and each and every right

and remedy shall be cumulative and in addition to any other right or remedy under this Agreement, or under applicable law, whether now or hereafter existing. The election by a party of any remedy provided for in this Agreement or otherwise available to such party shall not preclude such party from pursuing any other remedies available to such party at law, in equity, by contract or otherwise.

**44. Contractor's Representations:** The Contractor hereby represents, warrants, and agrees as follows:

- a) The Contractor is a registered investment adviser within the meaning of the Investment Advisers Act of 1940 (the "Advisers Act"), and will promptly advise the System if at any time during the Term of this Agreement the Contractor ceases being so registered or if its registration thereunder is suspended.
- b) Prior to the execution of this Agreement, the Contractor has disclosed to the System any action, event or occurrence that would be reportable in Section 11 ("Disciplinary Questions") of the Contractor's next ADV filing with the Securities and Exchange Commission (the "SEC"), irrespective of whether the Contractor is actually required to make such a filing.
- c) The employees, agents and subcontractors of the Contractor responsible for discharging the Contractor's duties and obligations under this Agreement are and will be individuals experienced in the performance of the various functions contemplated by this Agreement. The Contractor has conducted appropriate due diligence on all such persons in its employment, and, except as previously disclosed to and acknowledged in writing by the System none of such individuals has within the past 10 years, been convicted of any felony, found liable in a civil or administrative proceeding relating to such person's professional conduct, pleaded no contest, or agreed to any consent decree with respect to any matter involving breach of trust, breach of fiduciary duty, fraud, violations of any federal or state securities laws or banking laws or the FINRA Code of Conduct. The Contractor shall immediately notify the System if this representation and warranty is no longer accurate in any material respect.
- d) As of the date of this Agreement, the Contractor has provided the System with a true copy of its code of ethics or ethics policy and represents and warrants that, except as previously disclosed to and acknowledged by the System, there have been no material violations of or material waivers of such code or policy during the past three (3) years.
- e) The Contractor has put in place appropriate management systems and controls that are subject to regular review and testing and that include, without limitation, appropriate disaster recovery procedures, in accordance with the requirements of the Advisers Act and the rules thereunder.
- f) Unless otherwise agreed to in this Agreement, the Services do not, and will not, include open-source software that would require Contractor to share source code with the owner of such open-source software, and in no event shall the Services include any open-source software licensed under a "reciprocal" or "copyleft" open-source license



that would require the System to subsequently license or otherwise make available source code to a third party.

- g) With respect to any deliverables that comprise or contain software or other computer-readable files, Contractor represents that it has implemented an information security program to reasonably ensure that such deliverables are free of: viruses, material defects, worms, Trojan horses, destructive mechanisms, hidden or locked files, code that would cause any of the deliverables to replicate, transmit or activate itself without control of a person operating the computer equipment on which it resides, code that would alter, damage or erase any data or computer programs without control of a person operating the computer equipment on which it resides (except to the extent expressly contemplated in the RFP), any key, node lock, time-out, “back door,” “trap door,” “booby trap,” “drop dead device,” “data scrambling device,” or other similar illicit code (together “Illicit Code”); provided that, for the avoidance of doubt, Contractor does not guarantee such deliverables will be free of Illicit Code. No software or other files will be installed, executed or copied on the System’s equipment without the prior written approval of the System.
- h) Contractor has implemented and shall maintain an information security program that includes reasonable and appropriate physical, technical and administrative measures to safeguard System Information consistent with good industry practice and applicable law. “System Information” shall mean any data or information transferred, made available, or provided to Contractor by or on behalf the System in connection with this Agreement. Contractor agrees that System Information shall be deemed “Confidential Information” and shall be used by Contractor only in connection with its performance under this Agreement.

**45. Reporting Requirements:** The Contractor agrees to provide the System with notice of the following information in writing, as promptly as practicable, but in no event more than 15 days after the event of:

- a) The loss of any private debt/private credit consulting account which was more than 20% of the Contractor’s assets under advisement at time of withdrawal. The amount of the withdrawal and client type description should be included in this notification. Project clients are not included in this requirement.
- b) (A) The addition or departure of any personnel who have a significant role in advising the System, including therein the names, biographies and assets represented by such persons, (B) the addition or departure of any partner or officer of the Contractor or any other person that owns ten percent or more of the Contractor’s equity interests, in each case if not otherwise described in Section 43(a)(2)(A); and (C) the identity of any other persons or entities acquiring or disposing of 5% or more of the Contractor’s equity interests.
- c) Any action, event or occurrence that would be reportable in response to the Disciplinary Questions of the Contractor’s next ADV filing with the SEC, irrespective of whether the Contractor is actually required to make such a filing.

- d) Any investigation of the Contractor by a regulatory authority related to its performance of duties as an investment adviser; *provided, that* the foregoing shall not include notice of any routine or periodic reviews or examinations by a regulatory authority unless required to be disclosed pursuant to Section 43(a)(5) below.
- e) Receipt by the Contractor of any deficiency letter delivered to it by the SEC or other regulatory authority related to its performance of duties as an investment adviser following an examination of the Contractor by such regulatory authority as well as notice of any subsequent actions taken by the Contractor to remedy any related deficiencies.
- f) On an annual basis, prepare and promptly provide the System with a complete copy of the Contractor's most recent total ADV as filed with the SEC, unless the Contractor is not required to submit an ADV filing with the SEC, in which case the Contractor shall provide the System with equivalent information as would be provided in an ADV filing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the Effective Date.

[SIGNATURE BLOCK]

## EXHIBIT A

### DEFINITIONS

1. **Deliverables.** The term “Deliverables” means those deliverables that Contractor is obligated to provide pursuant to this Agreement (including the RFP and RFP Response). By way of clarification, and not limitation, all Documentation that Contractor provides to the System pursuant to this Agreement shall constitute Deliverables.
2. **Documentation.** The term “Documentation” means all printed, electronic, or verbally provided: (a) user manuals and training materials; (b) product descriptions and other specifications (including performance standards); (c) requirements in the RFP; (d) technical and operating manuals; and (e) specifications.
3. **Good Industry Practice.** The term “Good Industry Practice” means the exercise of the skill, care, due diligence, prudence, foresight, and judgment in relation to any undertaking or any circumstances that would be expected from an expert provider of work similar to one or more components of the Work that Contractor is providing under this Agreement.
4. **Intellectual Property Rights.** The term “Intellectual Property Rights” means any rights (whether owned or licensed) existing now or in the future under patent law, copyright law, trademark law, data and database protection law, trade secret law, and any and all similar proprietary rights. The term “Intellectual Property Rights” means those rights as they exist as of the Effective Date, and all such rights subsequently acquired.
5. **Personal Data.** The term “Personal Data” means any information: (a) relating to an identified or identifiable natural person; (b) that could be used to: (i) identify a natural person; (ii) authenticate such natural person; or (iii) commit identify theft or impersonation; or (c) that is classified as “personal data,” “personal information,” “PII,” or the like under applicable law. The term Personal Data expressly includes all information relating to the System’s customers, employees, and clients.
6. **Pre-Existing IP.** The term “Pre-Existing IP” means, collectively: (a) Intellectual Property Rights that, as between the parties, Contractor owns prior to the Effective Date; and (b) Intellectual Property Rights that Contractor develops independently of its obligations under this Agreement after the Effective Date.
7. **Pre-Existing Contractor Materials.** The term “Pre-Existing Contractor Materials” means work or materials that: (a) are identified with specificity as such in this Agreement; and (b) embody Pre-Existing IP.
8. **Services.** The term “Services” means those services that Contractor provides to the System pursuant to this Agreement.
9. **Work.** The term “Work” means, collectively: (a) Deliverables; and (b) Services.

## EXHIBIT B

### DATA SECURITY ADDENDUM

In addition to the security requirements set forth in the terms and conditions of the Agreement, to the extent that Contractor stores, hosts, processes, accesses or otherwise handles System Information, Contractor shall ensure that it, and all third parties providing services or deliverables or otherwise accessing System Information (as defined below), provide, implement, sustain, and regularly examine the more onerous of either (i) any data safeguards required to comply with Good Industry Practices (including recognized standards, such as NIST and ISO) and applicable law, and (ii) the following minimum security controls. Capitalized terms not defined in this Addendum have the meaning set out in the terms and conditions of the Agreement.

1. Contractor shall develop and employ administrative, technical and physical access control procedures, restrictions and safeguards including the appropriate use of multi-factor authentication for remote connections, to protect its computer and communication environment, including any System Information stored thereon, against unauthorized access, use, alteration or destruction. “System Information” shall mean any data or information transferred, made available, or provided to Contractor by or on behalf the System in connection with this Agreement. Contractor agrees that System Information shall be deemed “Confidential Information” and shall be used by Contractor only in connection with its performance under this Agreement.

2. Without limiting any other obligations hereunder, Contractor represents and warrants to the System that it has implemented and shall maintain an information security program that includes reasonable and appropriate physical, technical and administrative measures to safeguard System Information consistent with Good Industry Practice and applicable law, including but not limited to:

- (a) Written information security policies and procedures that are compliant with applicable law and Good Industry Practice;
- (b) Access controls consistent with Good Industry Practice that limit access to System Information and systems containing System Information only to those who need such access to perform its obligations under this Agreement;
- (c) User identification and password standards, including length and configuration attributes (character composition, expiration term, no sharing of accounts, separate privileged user accounts from non-privileged user accounts, etc.) consistent with Good Industry Practice;
- (d) Methods of secure encryption of System Information in transit over public networks and of data storage and backups of System Information at rest consistent with Good Industry Practice;
- (e) Maintaining regular data backup and recovery systems of System Information and any other data or systems;
- (f) Secure logging of all access to System Information;
- (g) Regular vulnerability scans and a managed patch management process to redress any identified vulnerabilities; and

(h) Maintaining and updating all systems, hardware and software for which Contractor is responsible in the performance of its obligations under this Agreement such that they remain under support by the applicable manufacturer or provider.

3. For the Term of the Agreement, Contractor shall operate, monitor, review and continually improve a written information security program in accordance with the ISO 27001 standard as the same may be amended, supplemented, or restated from time to time. Contractor shall implement, maintain, assess, monitor, and enforce compliance in all material respects with Contractor's information security program.

4. Contractor shall develop and employ disaster recovery and business continuity plans to ensure that Contractor will continue to provide the Work as contemplated under this Agreement. Contractor shall comply in all material respects with all applicable laws and Good Industry Practice relating to privacy, the protection of personal information and data protection (including, without limitation, applicable security breach notification obligations).

5. Contractor shall not transfer, store or process any System Information in any location outside of the United States of America except as expressly agreed to in writing by the System.

6. Contractor will implement personnel and administrative controls to mitigate security risks, including but not limited to (a) background checks on the Contractor's employees with access to Contractor's hosting platform or the System's Confidential Information, and (b) limiting access to Contractor's hosting platform to authorized individuals.

7. Contractor shall not permit any subcontractor to access System Information except for the uses otherwise provided in this Agreement, and Contractor shall prohibit such subcontractors from using System Information for any other purpose. Contractor remains fully and directly liable and responsible for its subcontractors' compliance with for all obligations under this Agreement as though no such subcontracting has occurred. Contractor shall require any subcontractors to whom Contractor transfers System Information or permits access to the System Information on Contractor's computer or communications environment to enter into a written agreement with Contractor requiring the subcontractor to abide by terms no less protective than this Agreement for protection of the System Information.

8. Security Audits.

(a) No less than annually, Contractor shall cause an audit to be conducted of all Contractor infrastructure used in connection with its (and its subcontractor's) performance of the Work under this Agreement, by a certified public accountant based on the Statement of Standards for Attestation Engagements (SSAE) No. 18 or another reasonable information security commensurate with the size of Contractor's organization and scope of information processed by Contractor (an "Annual Security Audit").

(b) Contractor shall provide a copy of the report from each such Annual Security Audit to the System (each, a "Security Audit Report") and its independent auditors as soon as reasonably possible after the conclusion of such Security Audit, and in all events within thirty (30)

calendar days of completion. Further, Contractor shall provide any updates to any Security Audit Reports to the System promptly after they are received by Contractor. Contractor shall promptly correct any deficiencies identified in any Security Audit Report. At the System's request, Contractor shall confirm in writing that there have been no changes in the relevant policies, procedures, and internal controls since the completion of a Security Audit other than the correction of any deficiencies as provided above. Contractor shall not redact the Security Audit Reports unless the redacted information (i) does not relate to the Work performed under this Agreement, or (ii) would compromise or threaten to compromise the security of Contractor's systems.

9. Security Incidents. Contractor shall inform the System of the occurrence of any suspected or actual unauthorized, accidental, or unlawful destruction, loss, alteration, disclosure or use of, or access to, any System Confidential Information (including System Information) within Contractor's possession or control (a "Security Incident") with the exception of (i) pings on Contractor's firewall, (ii) port scans, (iii) unsuccessful attempts to log onto a Contractor system or enter a Contractor database with an invalid password or username, or (iv) unsuccessful denial-of-service attacks that do not result in any Contractor's system downtime or being taken off-line.
- (a) Incident Response. Contractor may need to communicate with outside parties regarding a Security Incident, which may include contacting law enforcement, fielding media inquiries, and seeking external expertise as mutually agreed upon. Unless otherwise required by applicable law, Contractor shall not have any such communications without the System's prior written approval. If Contractor becomes aware of any Security Incident, then Contractor shall promptly notify the System to determine the appropriate incident response procedures in accordance with this Agreement and applicable law.
  - (b) Breach Reporting Requirements. If Contractor has actual knowledge of a Security Incident that affects the security of the Work or any System Information that is subject to applicable data breach or security incident notification law, Contractor shall (i) promptly notify the appropriate System contact within forty-eight (48) hours or sooner, unless shorter time is required by applicable law, and (ii) take commercially reasonable measures to address the Security Incident in a timely manner.
  - (c) Security Incident Notification. Contractor shall promptly notify the System by telephone, if Contractor confirms that there is, or reasonably believes that there has been a Security Incident. Contractor shall: (i) cooperate with the System as reasonably requested by the System to investigate and resolve the Security Incident and to provide the System with detailed information about the Security Incident; (ii) take reasonable steps to mitigate the effects of, and minimize any damage resulting from, the Security Incident, including promptly implementing necessary remedial measures; (iii) document responsive actions taken related to the Security Incident, including any post-incident review of events and actions taken to make changes in business practices in providing the Work, if necessary; and (iv) reasonably cooperate with the System to provide information in connection with any notice required to be sent to any third parties in connection with such Security Incident.
  - (d) Security Incident Remedial Measures. To the extent that a Security Incident was caused by Contractor, or Contractor's breach of its obligations under this Agreement (including this Data

Protection Addendum), Contractor shall bear all costs, expenses, or fees incurred by either party in connection with: (i) investigating and implementing resolutions to the Security Incident; (ii) preparing and sending notifications to individuals, regulators, or others required by applicable law; (iii) providing credit monitoring services to individuals affected by the Security Incident in accordance with Good Industry Practice; (iv) completing all corrective actions based on root cause analyses; and (vi) paying all regulatory or other fines. For the avoidance of doubt, the remedies provided in this paragraph are without prejudice and not exclusive to the System's other remedies contained in this Agreement.

10. In addition to the foregoing, Contractor shall indemnify the System for actual, direct damages or costs incurred by the System related to the unauthorized access, disclosure or use of System Information due to the Contractor's violation of its information security obligations hereunder, including (i) governmental fines and/or penalties imposed on the System, (ii) costs of remedial actions required of the System by law and (iii) costs reasonably incurred by the System relating to required notice of data breach to affected members, beneficiaries, and/or other affected parties.

SAMPLE

EXHIBIT C

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

***INVESTMENT POLICY***

Adopted by the Board of Trustees April 7, 2000

Revised July 1, 2024

*(Including Board approved revisions within the current fiscal year)*



## **INVESTMENT POLICY**

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## **I. Mission Statement and Core Values**

The Board of Trustees (“Board”) of the Teachers’ Retirement System of the State of Illinois (“TRS”, “System”) has a fiduciary responsibility to the Members and Beneficiaries of the System. In recognition of this responsibility, the Board has adopted the following Mission Statement:

### TRS’s Mission Statement

Delivering expert pension service to Illinois public educators as they earn their promised retirement security.

### TRS’s Core Values

- Integrity: We are tenaciously honest and ethical.
- Accountability: We openly set high standards and confidently own our actions and results.
- Service: We genuinely care for our members and each other by being kind and helpful.
- Teamwork: We proudly collaborate as one TRS.
- Diversity: We are inclusive and persistently embrace our differences to empower our success.
- Continuous Improvement: We challenge ourselves to embrace learning, new ideas and growth.

## **II. Statement of Purpose of Investment Policy**

This document specifically outlines the investment philosophy and practices of TRS and has been developed to serve as a reference point for the management of System assets. In order to assist System participants in achieving their financial security objectives, the Board shall adopt a long-term plan by which the assets of the System will be maintained and enhanced through prudent investments. **This is an official policy document of TRS. Deviation from this document is not permitted without explicit written permission, in advance, from the Board.**

In developing this Investment Policy, the Board and Staff understand and accept their fiduciary obligations to the Members and Beneficiaries of the System. These obligations are legal in nature and are outlined in the Illinois Pension Code [40 ILCS 5]. In summary form, the provisions specifically referring to the definitions, duties, and responsibilities of a fiduciary are these:

- a fiduciary is anyone who has discretion or control in managing the retirement system or its assets or in administering the retirement system, or who renders investment advice or advice on the selection of retirement system fiduciaries for direct or indirect compensation. [40 ILCS 5/1-101.2.]
- a fiduciary must discharge its duties to the retirement system for the exclusive purposes of providing benefits to participants and beneficiaries and defraying administrative expenses of the retirement system. [40 ILCS 5/1-109(a).]
- a fiduciary must discharge its duties to the retirement system with the same care, skill, prudence and diligence that a prudent expert would use in a similar enterprise. [40 ILCS 5/1-109(b).]
- a fiduciary must discharge its duties to the retirement system by diversifying the investments to minimize the risk of large losses, unless prudence dictates otherwise. [40 ILCS 5/1-109(c).]
- a fiduciary must discharge its duties to the retirement system in accordance with Articles 1 and 16 of the Illinois Pension Code. [40 ILCS 5/1-109(d).]
- a fiduciary must not cause the retirement system to engage in prohibited transactions. A fiduciary must not deal with the retirement system's assets for its own interest, or on behalf of any party whose interests are adverse to the retirement system or its participants or beneficiaries. [40 ILCS 5/1-110].

These statutes are the foundation for development of TRS's Investment Policy. For brevity and clarity, the Board adopts the following interpretation of the statute as its "Guiding Principles":

### **Principles Guiding TRS's Investment Activity**

1. Preserve the long-term principal of the Trust fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of the Members and Beneficiaries of the System.

These principles, combined with the applicable sections of the Illinois Pension Code [40 ILCS 5], serve as the basic guideline for this Investment Policy.

### **III. Investment Philosophy**

#### **Objective**

TRS's Mission Statement indicates that we deliver expert pension service to Illinois public educators as they earn their promised retirement security. In order to provide benefits to its members and beneficiaries, the System must accumulate and maintain the liquid financial reserves necessary to fulfill this obligation.

Liquid financial reserves shall be obtained from three sources: (1) contributions from the State of Illinois and participating school districts, (2) contributions from the members, (3) return on investments. For purposes of developing this Investment Policy, the System assumes that the mandated contributions from the State will continue in the future and remain an important source of funding for TRS. As important as the level of contributions is the return on investment of the assets of TRS. Based on general beliefs about the long-term investment returns available from a well-diversified and prudently invested portfolio, the Board has adopted the following Total Fund Investment Objective:

- ***TRS's Total Fund Investment Return Objective***
  - ***The goal of TRS's investment strategy is to achieve a total rate of return of at least 7.00 percent per annum.***

#### **Risk**

The investment risk philosophy for the System is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

- Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk taking is justifiable for long-term investors.
- Risk can be controlled through diversification of asset classes and investment approaches, as well as diversification of individual securities.
- Absolute levels of risk are reduced by time, and over time the relative performance of different asset classes is reasonably consistent. Over the long term, equity investments have provided and should continue to provide superior returns over other security types. Fixed-income securities can dampen volatility and provide liquidity in periods of depressed economic activity.
- The primary determinant of long-term investment performance is the strategic or long-term allocation of assets among various asset classes.
- Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Given these principles, the System has established a long-term asset allocation policy that balances the return required to meet the System's objectives and the risk level that is appropriate

under existing circumstances. In determining its risk posture, the Board has properly considered, in addition to its fiduciary obligations and statutory requirements, the System's purpose and characteristics, current and projected financial condition, liquidity needs, sources of contributions, income, and general business conditions.

To promote the likelihood of achieving the System's investment objectives, it's important for TRS Staff and the Investment Committee to monitor various risk measures on a regular basis. Risk monitoring will include review of realized and expected measurements utilizing various systems and consultant data. It is understood that there will be periods during which the Fund's risk profile could deviate from historical norms due to market events and/or active portfolio positioning. The primary risk measures regularly monitored will include:

1. Volatility: annualized standard deviation of Fund returns
2. Equity Beta: sensitivity of Fund returns to stock market returns
3. Risk Adjusted Returns: Sharpe Ratio or similar measures of Fund returns per unit of risk
4. Downside Performance: can include down market capture, downside risk, stress tests, or drawdown measures
5. Liquidity: the liquidity of the Fund including, but not limited to, marketability of investments and plan cash flows

With the exception of liquidity, the risk measures will be evaluated by comparison to the TRS Policy Index, as outlined in performance benchmark section of this policy, and peer group results over similar time periods.

### **Diversification**

In order to achieve this rate of return, the Board will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. Investors generally diversify their portfolios along the following attributes: asset classifications (stocks, bonds, real estate, private equity, and short-term investments), geography, industries, and maturity sectors. Other considerations in asset allocation modeling should take into account the purpose of the System, the size and financial condition of the fund, and general business conditions. The factors mentioned here are not intended to be limiting; rather, they are outlined as a general indication of the importance of diversification to proper asset allocation. Under such an allocation, the System's assets may be invested by some combination of internal and/or external managers. The Board will determine the proper allocation among asset classes, based on advice and analysis provided by Staff and/or an External General or Asset Class Consultant(s).

### **Formal Review Schedule**

The Board recognizes that even though the System's investments are subject to short-term volatility, it shall maintain a long-term investment focus. This prevents ad-hoc revisions to the philosophy and policies in reaction to either speculation or short-term market fluctuations. In order to preserve this long-term view, the Board has adopted the following formal review schedule:

*Investment Policy*  
*July 1, 2024*

<b>Formal Review Agenda Item</b>	<b>Formal Review Schedule</b>
Total Fund Performance	At least quarterly
Asset Allocation Policy	At least every three years
Asset Class Structure	At least annually
Investment Policy	At least annually
Investment Consultant Review	At least annually
Investment Manager Performance Review	At least annually
Custodian Review	At least annually

#### **IV. Role Definitions**

TRS is one of the larger public pension funds in the United States, as such its operational requirements are complex. The Board relies heavily on both Internal Staff and external contractors in order to properly administer the System and implement its investment strategies. Because of the number of parties involved, their roles as fiduciaries must be clearly identified to increase operational efficiency, to ensure clear lines of responsibility, and to reduce or eliminate duplication of effort.

##### **Board of Trustees**

The Board has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the System's operation. The Board is responsible for prudent investment and expenditure of the System's funds and assets. Specifically with regard to investments, the Board takes action upon recommendations that come from its Investment Committee. The Board also approves actuarial assumptions, certifies contribution rates and determines policies pertaining to the administration of the plans and benefits under its jurisdiction and responsibility.

##### **Investment Committee**

The Board establishes the Investment Committee and elects the Chair and Vice-Chair of the Committee ("Chair" and "Vice Chair"). The Committee makes recommendations to the Board on investment actions including, but not limited to, the following topics:

1. All Board approved policies related to the Investment Program including:
  - The Investment Policy, Exhibits and/or Appendices
  - Rebalancing Policy
  - Manager Hiring & Termination Policy
  - Brokerage Policy
  - Proxy Voting Policy
  - Securities Class Action Litigation Policy
2. The Asset Allocation Policy and Asset Class Structure/Tactical Plans
3. Performance Benchmarks
4. The Master Trustee/Custodian ("Custodian") Relationship
5. The Securities Lending Program
6. Investment Manager Relationships
7. Consulting Relationships(s)
8. Other Service Providers

The Committee meets prior to the regular meeting of the Board to address overall investment activities. Staff and Consultant(s) brief the Committee on any topics or issues pertinent to the System's investment operations and results and make recommendations to the Committee for appropriate courses of action. The Board at its discretion has created an Investment Working Group to improve transparency and provide a structure for more frequent communication between Trustees and Investment Staff. The working group is an informal group whose purpose is limited to information gathering. Therefore, the working group does not have the authority to direct, take action, or vote on any matter. The working group members may discuss investment

actions and review actions in relation to Board-established policies and adherence to internal decision procedures.

### **Chief Investment Officer**

The Chief Investment Officer (“CIO”) is appointed by and serves at the pleasure of the Board. The CIO is responsible for planning, organizing, and administering the investment operations of the System under broad policy guidance and direction from the Board. The CIO, with assistance of Investment Staff, monitors the performance of the investment portfolio; ensures that funds are invested in accordance with Board policies; communicates with the Board, its Officers and the Investment Committee Chair and Vice Chair; studies, recommends, and implements policy and operational procedures that will enhance the investment program of TRS; and ensures that proper internal controls are developed to safeguard the assets of the System. In fulfilling these investment responsibilities, the CIO relies heavily on the Internal Investment Staff and Consultant(s).

### **Internal Investment Staff**

The Internal Investment Staff reports directly or through their supervisors to the Chief Investment Officer (“CIO”). The Internal Investment Staff provides external investment manager monitoring, may provide internal investment management and provides consulting services to the Board and Director. In the course of the CIO’s normal functions, the CIO will work directly with the Board, Investment Committee and its Chair and/or Vice Chair. The frequency and content of reports to the Board are based on the requirements of the Investment Policy as well as directives from the Board and/or its Investment Committee.

The primary functions of the Internal Investment Staff include analyzing and rebalancing the overall asset allocation of the System and its portfolio structure; implementing the decisions of the Board; providing technical advice in the selection and monitoring of the external managers; serving as a liaison to the investment community; and informing and advising the Board on financial, economic and socio-political developments that may affect the System’s investments.

The Internal Investment Staff also works closely with the External Investment Consultant(s). Recommendations to the Investment Committee will generally be developed jointly by the Staff and Consultant with advice to the Chair and the Investment Committee. Once an item is identified as a potential agenda item, Staff and Consultant begin working together on the issue. If one group has more expertise in the particular area than the other, that party may do the majority of the work. In most if not all cases, however, any analysis or recommendation that is made to the Committee will be developed jointly and agreed to or approved by all parties.

Recommendations from staff are the responsibility of and developed by Staff Oversight Committees. All Oversight Committees are governed by policy and procedures documents which are typically reviewed annually. These governing documents are designed to ensure a prudent and consistent decision-making process.

### **External Investment Consultant(s)**

The Consultant is hired by and reports directly to the Board of Trustees. The Consultant's duty is



to work with the Board, Investment Committee and its Chair, and Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the Fund's goals, structure, performance and managers. In the course of the Consultant's normal functions, the Consultant will work directly with the Staff to review asset allocations and performance and make recommendations to the Board as appropriate. The Consultant will assist Staff and the Committee with external investment manager selection and will promptly inform the System and discuss the impact of material changes taking place within any current Manager's organization or investment process. The Board may elect to retain one or more Consultants that specialize in specific areas of asset consulting. Performance of Investment Consultant(s) will be subject to annual review by the Investment Committee as well as prior to contract renewal.

The relationship between the Staff and Consultant is structured based on the concept of "checks and balances." It is expected that the majority of recommendations made to the Board will be jointly developed and supported by Staff and Consultant. However, given the degree of qualitative analysis involved in the decision-making process, it is possible that opinions of these two groups may differ on certain issues in which case the Chair shall be apprised so that he/she can provide guidance, after which the Chair shall communicate with other members with respect to said matters. Staff and Consultant should, in most cases, professionally resolve differences of opinion prior to presentation of formal recommendations.

### **External Investment Managers**

The external Investment Managers ("Managers") serve at the pleasure of the Board. The Staff and Consultant will provide the Managers with explicit written directions detailing their particular assignments. They will select, buy, and sell specific securities or investments within the parameters specified by Staff and Consultant and in adherence to this Investment Policy or to other policies set forth by the Board. Managers will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which the Board hired them. Certain Managers may also, at the direction of the Board, engage in a Securities Lending program. Discretion is delegated to the Managers to carry out these investment actions. Managers will provide performance reporting to the Staff utilizing standardized reporting formats and at intervals specified by Staff.

### **Custodian**

The Custodian is selected by, and serves at the pleasure of, the Board. The Custodian(s) will collect income and safekeep all cash and securities, and will regularly summarize these holdings, along with both their individual and collective performance, for Staff's review. The Custodian will provide data and performance reports to the Staff and Consultant at intervals specified by the System's written policy or contract. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash flow prior to allocating it to the Investment Managers, and to invest such cash in liquid, interest-bearing instruments. The Board authorizes asset allocation guidelines; in order to maintain these targets, Staff will direct the Custodian to allocate cash and/or securities to the System's Investment Managers as necessary. The Custodian may also, at the direction of the Board, engage in a Securities Lending program. In the event additional

securities lending agents are utilized by the System, the custodian will fully cooperate and provide additional or necessary reporting requested by the System.

### **Office of Legal Counsel**

The role of the Office of Legal Counsel is to perform draft document review and provide legal advice on issues, as necessary, to protect the interests of the System. The Office of Legal Counsel does not review or approve investment decisions. The Office of Legal Counsel reviews business terms for proper form and legality. However, Legal Counsel review does not extend to aspects of business terms that require investment or financial expertise. The following documents and issues will be brought to the attention of the Office of Legal Counsel:

- Any document that the Executive Director is requested to sign.
- New investment management agreements, marked to identify any changes to the approved IMA master.
- Contracts with investment service providers.
- Letter agreements and side letters with any investment manager or investment service provider.
- Requests for proposals.
- Amendments to investment management agreements.
- Amendments to contracts with investment service providers.
- Nondisclosure and confidentiality agreements.
- Amendments to letter agreements and side letters.
- Revisions to the approved IMA master.
- Revisions to investment policies.
- Termination letters.
- Any matter that Investment Staff wishes to assign to outside counsel excluding routine matters for which the CIO may directly interact with outside counsel.
- Disclosure by any current or potential investment manager, or discovery of any lawsuit, SEC investigation, or other legal, administrative, or investigatory proceeding involving a current or potential investment manager or any of the manager's key personnel.
- Correspondence to or from any investment manager or investment service provider concerning actual or potential litigation or legal issue.
- Any material violation by an investment manager or investment service provider of any terms or obligations in a contract with the System that comes to the attention of Investment Staff excluding violations of investment parameters.

## **V. Consultant Notification Process**

A professional relationship between the Consultant and the internal investment and management staff is essential to the successful completion of the tasks involved in the investment management process. Together, the Staff and Consultant prepare and present reports on investment performance and the results of manager due diligence meetings, as well as recommend investment opportunities for the System.

As noted in Section IV, a significant amount of qualitative judgment must be employed in the investment management process, hence the concept of “checks and balances.” This concept provides the foundation for the Board’s assurance that the recommendations and information it receives from Staff and Consultant are, in their collective professional opinions, in the best interest of the System. As an additional safeguard, the Board charges both the Staff and the Consultant with the responsibility of monitoring the implementation of its policies. It is the Board’s position that it is imperative for the Consultant to have the independence and ability to inform the Trustees in the event of any concerns related to System investment activity. Accordingly, the Board directs the Consultant to provide written notification of concerns or issues along with recommendations to the CIO, Director, Board Chair and Board as appropriate.

## **VI. Implementation**

The Board recognizes that the complex investment processes of TRS require a substantial amount of daily attention. It is clear that the Board and Committee, meeting periodically, cannot oversee the day-to-day operations of the investment function. In order to promote operational efficiency in the implementation of its Investment Policy, the Board has employed various parties to carry out these duties. The efficiency of operations is critically dependent on the proper delegation and coordination of clearly defined assignments among the various parties listed in Section IV of this document.

This Investment Policy is written with the intent of providing a broad operational outline, or reference point, for implementing the investment philosophy and practices of TRS. Properly structured, a policy document of this nature should require little revision over time. Technical details such as asset allocation and manager structure assumptions, investment manager parameters, and cost management have been intentionally omitted from this document, due to the volume and complexity of these issues. These details will be maintained by TRS's Investment Staff and available to the Board as requested.

## VII. Asset Allocation and Rebalancing Strategy

The System's asset allocation policy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Investment Policy Statement. It is designed to provide the highest probability of meeting or exceeding the System's objectives at a controlled level of risk that is acceptable to the Board. In establishing its risk tolerance, the Board considered its ability to withstand short- and intermediate-term volatility in investment performance and fluctuations in financial condition of the plan.

The Board has approved a broad, four asset class structure focused on the underlying risk profiles of the investment universe. The four classes (equity, income, real assets and diversifying strategies) are then further broken down based on the underlying characteristics (e.g. public equity vs private equity). In determining the appropriate strategic allocation among these asset classes, the Board, with assistance from Staff and Consultant, examined the historical and projected risk and return of the approved asset classes as well as the correlation among these asset classes. The Board also considered the expected impact of investment performance on the liabilities of the System for a range of reasonable investment policies. Based on its determination of the appropriate risk tolerance for the System, and its long-term return expectations, the Board has authorized the following Strategic and Interim Asset Allocation Policy:

<b>Asset Allocation Policy Mix (Percent of total Fund)</b>	<b>Long-term</b>	<b>Interim</b>
<b>Equity</b>	<b>52%</b>	<b>52%</b>
Public Equity	37%	37%
Private Equity	15%	15%
<b>Real Assets</b>	<b>18%</b>	<b>18%</b>
Real Estate	16%	16%
Other Real Assets	2%	2%
<b>Diversifying Strategies</b>	<b>6%</b>	<b>5%</b>
<b>Income</b>	<b>24%</b>	<b>25%</b>
Global Income	15%	15%
Private Credit	8%	8%
Short - Term	1%	2%
<b>Total TRS</b>	<b>100%</b>	<b>100%</b>

The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the System's long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets.

### **Strategic Allocation Rebalancing Policy**

Rebalancing is the term that describes the periodic movement of funds from one asset or asset class to another for the purpose of realigning the assets with the asset allocation target. A rebalancing strategy is an important element of asset allocation policy. Systematic rebalancing

will help ensure the Board’s approved asset allocation is maintained and related return/risk attributes are experienced over the long term. However, excessively tight ranges and frequent rebalancing can lead to unnecessary transaction costs.

The Board has chosen to adopt a rebalancing policy that is governed by allocation ranges rather than time periods. The ranges, specified in the table below, are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. While the allocation to all asset classes remains within these limits, TRS Staff will first use cash flow, as available, to maintain the overall allocation as close as possible to the target. When an asset class violates the lower or upper limits, the public market fund may be actively rebalanced back to the target.

Relative to the broader risk-focused four class structure, the following rebalance ranges apply:

<b>Strategic Allocation Rebalance</b>	<b>Lower Limit</b>	<b>Target Allocation</b>	<b>Upper Limit</b>
<b>Equity</b>	<b>42%</b>	<b>52%</b>	<b>62%</b>
Public Equity	27%	37%	47%
Private Equity	12%	15%	18%
<b>Real Assets</b>	<b>15%</b>	<b>18%</b>	<b>21%</b>
Real Estate	13%	16%	19%
Other Real Assets	1%	2%	3%
<b>Diversifying Strategies</b>	<b>3%</b>	<b>6%</b>	<b>10%</b>
<b>Income</b>	<b>20%</b>	<b>24%</b>	<b>30%</b>
Global Income	10%	15%	20%
Private Credit	5%	8%	11%
Short-Term	0%	1%	4%

When any one of the public market asset classes hits a trigger point, the entire fund may be rebalanced back to asset class target allocations with the understanding that it may be impractical to return certain less liquid classes precisely to target in the short term. Accordingly, qualitative considerations (e.g., transaction costs, liquidity needs, investment time horizons, etc.) will be considered in determining the potential timing and extent of rebalancing within private market portfolios.

Staff is responsible for developing and implementing a rebalancing plan that is appropriate for existing market conditions, with a primary objective of minimizing transaction costs and portfolio disruptions. Staff shall advise the Chair and/or Vice Chair in advance of proceeding with any rebalancing activity that occurs outside of the Board authorized limits. In the event an allocation trigger point is not reached, Staff may still make minor changes among asset classes and within individual asset classes, as needed, to more effectively implement the program and to maintain proper exposure to the Board-approved asset allocation and asset class portfolio structures. Staff will report the results of all rebalancing activity to the Investment Committee at the regular meetings.

**Asset Class Rebalancing Range**

Establishing a rebalancing range allows Staff to implement modest position variances relative to policy targets in order to control risk, adjust to market opportunities, and/or minimize fund transaction costs. The Board allows Staff the ability to rebalance public markets asset classes within the ranges indicated in this policy and tactical plans.

## **VIII. Investment Manager Structure**

The Board will authorize strategic decisions regarding the portfolio structure. The Board authorizes Staff to utilize external investment managers and implement a diversified investment strategy across asset classes. Staff and Consultant determine the structure within each asset class, which is established in asset class tactical plans or annual reviews and subsequently approved by the Board. One or more investment managers can be utilized to implement each component of the mandate structure. Staff may adjust the manager structure weightings for the purpose of risk control, cost control or performance improvement. All revisions to the manager and mandate structure are subject to approval of the applicable Staff Oversight Committee.

In order to implement this strategy, External Investment Managers will be given specific tactical roles within the overall strategic investment plan. Depending on their assignments, the Managers may be judged on some or all of the following criteria: (i) consistency of philosophy, style, and key personnel, (ii) performance relative to an appropriate index or proxy group, and (iii) ability to add incremental value after costs. Staff and Consultant will be responsible for implementation of this strategy, supervision of the Managers, performance monitoring and reporting. Updates will be provided to the Board (i) based on the schedule outlined in Section III, (ii) as requested by the Board, its Investment Committee or its Chair, and (iii) as deemed necessary by Staff and Consultant.

In order to adequately diversify the roster of investment managers, the System has established ten percent of the total fund as the maximum percentage of assets allowed under management by a single active investment management firm, including a parent and any wholly or partially owned affiliates, subsidiaries, or joint venture firms. Deviations above ten percent caused by market fluctuations will not result in an automatic withdrawal of funds from the manager. However, the manager will not be eligible to receive additional funds resulting from rebalancing or from a new mandate as long as the asset level remains above ten percent.



## **IX. Investment Manager Hiring Guidelines**

### **Introduction**

The Trustees of the Teachers' Retirement System ("TRS") have established the following guidelines for hiring external investment managers. In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of plan participants and beneficiaries.

### **Clearly Defined Objectives**

Any action to hire a manager should be based on one or more of the following observations:

- Identification of a new asset class or investment strategy which has been approved in advance by the Board.
- A need for diversification of styles within an existing asset class.
- A need to replace an investment manager terminated by the System or pending termination.
- A need to retain additional managers in order to reach an asset class target.
- A superior alternative to an incumbent has been discovered.

### **Search and Selection Process**

The selection of new investment managers will adhere to a consistent process to ensure an open and competitive manager universe, proper evaluation and due diligence of all candidates, and selection of candidates that are best able to demonstrate the characteristics sought in a specific search. The intent of this process is identical for both the public and private markets yet, recognizing the specific characteristics of these markets, there are some implementation differences in the search process. The process includes the following steps:

#### *1. Establish Investment Manager Selection Criteria*

Investment manager searches may be initiated by Staff seeking to optimize the investment portfolio under the guidance of the applicable Staff Oversight Committee and Board-approved asset allocation and portfolio structure. In either event, the initial step in every manager search process will be formulation of specific manager search criteria that establish the qualifications for the manager's role. For public market searches (for the purposes of this section, the "public markets" asset classes are defined as U.S. equities, international equities and global income), Staff, working with the Consultant, will prepare a written candidate profile that lists specific requirements for each search. The profile will specify quantitative factors such as minimum assets under management minimum track record, and other risk or return objectives deemed necessary. The profile may also specify qualitative factors including, but not limited to, size and tenure of professional staff, investment strategy and process, or organizational stability.

Specific manager search criteria will also be established within the small and mid-cap public equity segment. However, recognizing the unique differences and competitiveness of this

particular segment, Staff will continuously monitor the investment manager universe for attractive candidates.

In the private markets, the development of an annual tactical plan establishes the criteria, investment strategy and allocation targets. Staff, working with the Consultant, will prepare the tactical plan for presentation to the Committee at the beginning of each fiscal year. Over the course of the tactical plan period, Staff and Consultant will work prudently to identify managers/funds available in the marketplace that will best position the TRS portfolio to its intended private market strategic and allocation targets.

## *2. Identify qualified candidates*

The second step is identifying investment organizations and products that meet the search criteria. In public markets searches, the manager search database maintained by the Investment Consultant will serve as the pool from which candidates will be selected. Prior to the database screening, investment managers may request to participate in the search and Board and Staff members may request that specific managers be included in the search. However, to be included in a search, investment managers not currently in the Consultant's database must submit a completed questionnaire to the Consultant prior to the specified screening date. All investment managers in the Consultant's database that offer an appropriate product and meet requirements for asset size and track record will be selected for review. Staff and Consultant staff will then review the candidate list to eliminate any products that fail to meet qualitative screens.

Within the small and mid-cap public equity segment, Staff and the Consultant will formally screen the full manager universe as needed given small cap structure considerations. All managers in the database or having submitted questionnaires to the Consultant prior to that date will be screened for consideration.

In the private markets, managers and funds will be opportunistically reviewed as they are available in the market. All investment opportunities will be reviewed relative to the System's annual tactical plan, as well as on the quality of the investment manager's team, process and strategy. Staff will eliminate any products that fail to meet the System's qualitative requirements and/or do not adequately fit into a strategic allocation defined in the annual tactical plan. While the typical search activity within private assets is related to identification of limited partnership interests in private markets funds, this identification process also applies to private asset separate account managers.

## *3. Solicit Proposals from Qualified Candidates*

In public market searches, Staff working with the Consultant may send a Request for Proposal ("RFP") or Request for Information ("RFI") to the candidates identified in the initial screening process. Responses will be submitted to Staff and Consultant within a reasonable time frame specified in the RFP. Similarly, in private markets searches, Staff may send a detailed questionnaire to candidates identified in the initial screening process. Responses will be submitted to Staff and thoroughly reviewed in the course of due diligence.

#### *4. Final Recommendation and Selection*

Based on the candidate responses, Staff and Consultant will recommend managers to the applicable Staff Oversight Committee for final approval. Documentation to the applicable Oversight Committee will include a timeline of the search process, a summary of that process, and confirmation that the search was conducted in accordance with TRS policy. Within the public markets asset classes, Staff and Consultant, with the approval of the applicable Staff Oversight Committee, will select manager(s) to be hired and for initial funding, including source of funds. Allocations should be consistent with the Board-approved asset allocation and portfolio structure. In choosing the investment managers, Staff and Consultant will favor those firms that, based on quantitative and qualitative factors, appear to have the highest probability of success over the next three to five years and appear to be best prepared to work successfully with the Board, Staff and Consultant. At the meeting immediately following funding, Staff and Consultant will provide the Investment Committee an update on search activity, along with necessary reports related to the search, including a selection/compliance checklist confirming adherence to Board-approved policies.

Recognizing the opportunistic nature of the private market vehicles and the varied nature of fund-raising cycles, Staff will present a candidate to fill a specific allocation within the private equity, real estate, private debt, and diversifying strategies tactical plan(s) to the applicable Staff Oversight Committee for final approval. Candidates will be selected such that, based upon both qualitative and quantitative consideration, the fund possesses the highest probability of success over the life of the investment. Any finalist firm successfully passing due diligence review and fee and contract negotiations may be presented to the applicable Staff Oversight Committee. With approval and in compliance with all provisions of the applicable tactical plan (including any specified funding limits), staff is authorized to implement the recommendation. At the next scheduled meeting of the Investment Committee following the commitment, staff will provide the Committee any necessary reports related to the commitment and when requested a selection/compliance checklist confirming adherence to Board-approved policies.

Finally, the System's alternative investment relationships will often present opportunities for co-investment alongside fund investments. When these investments are complementary to the portfolio, it is advantageous to the System to participate in these opportunities as they provide return enhancement at lower fee structures. Co-investment opportunities are typically presented to TRS staff from existing alternative investment managers. Staff conducts their own separate due diligence on each co-investment opportunity with final approval granted by the applicable Staff Oversight Committee.

Note that any recommendation falling outside Board-approved policies will be presented to the Investment Committee for consideration (e.g. investment strategies or recommendations outside the specified areas of an asset class, tactical plan, or established funding limits).

It is also anticipated that Staff will present Investment Managers (particularly larger and/or key relationships) to the Investment Committee or Board on a routine basis. Given their importance to the overall investment program, these managers will be asked to present on items such as the

specific performance of their mandate, or in an educational capacity to represent their expert views of current market conditions or industry segments.

### **Competitive Environment**

All efforts should be conducted in an open and competitive environment in order to assure that qualified service providers are identified, with consistent expectations and actual results for comparison. In cases where multiple providers exist, a meaningful sample of qualified service providers may be considered and evaluated in relationship to one another. It is acknowledged that other than when hiring passive index managers, many of the criteria considered in evaluating potential investment managers will be subjective. Although cost shall always be a factor considered when evaluating investment managers, it is to be anticipated that only in rare circumstances will cost be the controlling consideration.

### **Proper Documentation and Full Disclosure**

When overseeing reviews of the delegated hiring of external investment services provided by Staff, the primary focus of the Investment Committee and Board shall be on whether decisions followed established processes and procedures in the Pension Code, administrative rules and this Investment Policy. Toward this end, the Chair and Committee members may request the written supporting documentation to assure the greatest possible disclosure of all relevant issues, including the investment search process, investment sourcing and related due diligence. In evaluating a hiring decision, Staff, Consultant and the applicable Staff Oversight Committee should review documentation to ensure that the search process was fair, and that the screening process was consistently applied. Potential service providers or candidates may, at the pleasure of the Board or upon the recommendation of Staff and Consultant, be asked to make a formal presentation at any time. All documents required to complete an investment transaction in any asset class shall be negotiated in final form and approved by the Staff Oversight Committee. Any exception due to pending negotiation shall be fully disclosed to the Investment Committee and reflected in any related Board resolution.

### **Defining Expectations**

In the case where a manager is hired within a public markets search, the search process document shall include, but may not be limited to, the following:

1. a summary of performance criteria considerations,
2. the absolute and relative risks inherent in the manager's approach,
3. staff's qualitative assessment, and
4. identification of relevant comparative measures such as benchmarks and/or peer samples.

Staff and Consultant shall incorporate the relevant factors related to expectations of the manager into the executed Investment Management Agreement.

For private markets investments, the Committee will be presented with due diligence documentation that will include, but may not be limited to, the following:

1. a full description of the firm, fund and key partners,

2. terms and conditions of the fund,
3. an analysis of the key concerns and/or risks inherent in the investment, and
4. the suitability of the investment within the System's tactical plan and investment portfolio.

Similar to public markets investments, Staff shall incorporate all relevant factors related to expectations of the manager into the executed Partnership and Subscription Agreements.

#### **Board Reporting and Monitoring**

After a manager is selected, the Staff and Consultant will regularly monitor the manager's results versus expectations. The System's Staff and Consultant will conduct periodic due diligence meetings with the outside organizations and are responsible for collaboration on relevant issues and reporting to the Board on any material events regarding an investment manager.

Oversight responsibilities within private market relationships include active participation on fund Advisory Boards (when TRS holds a seat on such Boards), periodic portfolio reviews, and appropriate attendance at partnership annual meetings.

#### **Placement Fees**

The System does not permit the payment of third-party placement, marketing, solicitor's, finder's, consulting, or any other contingent fee in relation to the procurement of a TRS investment.

## **X. Investment Manager Retention Analysis**

### **Introduction**

Manager retention decisions have the same potential impact on returns as do the initial selection of the manager and should be afforded the same degree of attention. As in the search process, a discipline is needed which will minimize the probability of retaining an underperforming manager that continues to underperform or terminating a currently underperforming manager just before a period of very strong performance.

The following framework for Investment Manager Retention Analysis allows for the identification of existing and potential problems and outlines how and when TRS should address specific issues and events thereby avoiding untimely or ad-hoc decisions that may adversely impact fund returns. This policy will apply to all of TRS's external managers, except where otherwise noted, and is intended to accomplish these objectives:

- foster a long-term approach to manager evaluations,
- provide a logical and statistically valid framework for manager skill evaluation,
- promote timely and appropriate responses to actual and potential performance issues, and
- provide flexibility to allow application across all asset classes, management styles, and market environments.

### **Monitoring and Evaluation Process**

The framework for retention analysis relies on a formal performance reporting process that includes:

- Monthly performance reports from Custodian to the Staff. These reports will detail the individual performance of managers and the overall performance of the fund.
- Quarterly performance reports from the investment managers to Staff. These reports will utilize a standardized reporting format specified by the System for its public markets separate accounts.
- Regular reports from the Staff and Consultant to the Investment Committee at regular Committee meetings.

The formal performance reports are supplemented by qualitative analysis that is generated in the course of regular, on-going contact between the investment managers, TRS Staff and the Consultant. Generally, that contact takes the following form:

- The annual review process within public markets and diversifying strategies mandates will include a meeting (in person, videoconference, or teleconference as needed) and shall typically be held no less than annually<sup>1</sup>. Each meeting will include a review of the investment manager's performance, current investment strategy, and other issues related to the manager's organization, personnel, or investment process. If performance or organizational

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<sup>1</sup> Meetings with Passive Managers are generally held biennially rather than annually.

issues arise for a specific manager, Staff may be in contact with the manager on a regular basis until the issues are resolved.

- The Consultant will participate in many of the Staff scheduled manager meetings and will meet with managers at other times during the year in the normal course of their monitoring process.
- The Investment Committee or its Chair, the Staff, and/or the Consultant may call any investment manager to appear before the Board at any time during the fiscal year.

### **Watch List and Termination Guidelines**

#### **Quantitative Factors Resulting in Watch List Additions and Recommended Actions**

As stated earlier, a number of factors may contribute to a manager's over- or under-performance at any given time - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. The following represents the guideline used for placing a public market manager on the Watch List:

- if the manager's rolling, three-year return (net of fees) plots below the rolling, three-year benchmark return for two (2) consecutive quarters

Once a manager is placed on a Watch List, the Staff Oversight Committee will be notified, and performance will be closely monitored and scrutinized. Additional actions could include Staff meetings with the manager or a formal re-interview of the manager. A recommended course of action from Staff and/or Consultant must be made to the Staff Oversight Committee at the meeting following inclusion on the Watch List. The manager shall remain on the Watch List subject to a subsequent recommendation by Staff and Consultant as to the manager's ongoing relationship. Generally, one period of rolling, three-year return plots above the benchmark line following placement on the Watch List will result in the manager's removal from that list. The observation process will at this point begin again.

#### **Qualitative Factors Resulting in Watch List Addition and Recommended Actions**

In-depth qualitative analysis is conducted on potential investment managers during the System's systematic manager search process. This analysis covers areas such as style, philosophy, process, personnel, and organizational structure. Similar analysis will be employed on an ongoing basis during the contract period with each manager, whether passive or active.

A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events will be considered a reason to add the manager to the Watch List. Watch List additions will be reported to the applicable Staff Oversight Committee at its next regular meeting. If the issue is considered serious enough, a special meeting of the Staff Oversight Committee may be requested for review and action. Examples include, but are not limited to, these events:

- significant changes in firm ownership and/or structure,
- loss of one or more key personnel,
- significant loss of clients and/or assets under management,
- shifts in the firm's philosophy or process,
- significant and persistent lack of responsiveness to client requests,
- when applicable, the downgrading of the investment strategy by the applicable asset class consultant
- chronic violations of TRS's Investment Policy or Parameters, or
- any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material by them.

After an assessment of the nature of the problem or potential problem, the applicable Staff Oversight Committee should then make a determination as to the appropriate course of action at the meeting after notification. Possible responses include, but are not limited to, these:

- no action,
- placement on a Watch List,
- immediate Staff meetings with the manager,
- formal interview of the manager,
- initiation of a Comprehensive Review, or
- termination.

Because of the subjective nature of Qualitative Analysis, each situation should be handled on a case-by-case basis. It should be noted that transition costs should be considered as an element of termination decisions.

### **Conclusion**

This Framework provides guidelines that are useful in determining the conditions under which a contract relationship between an investment manager and TRS should be called into question. In addition, circumstances are depicted in which Staff and/or the Board of Trustees may elect to terminate a manager for cause (all of TRS's public market investment manager contracts may be terminated, with or without cause, immediately upon notification).

A manager retention decision is very important to the continued success of a pension fund's investment strategy. As such, it should not be taken lightly nor should it be made with blind reliance on quantitative or qualitative guidelines. The ultimate decision rests in the collective judgment of the applicable Staff Oversight Committee, by granted authority of the Board of Trustees, following consultation with the responsible Staff and/or the Consultant. **Nothing contained in this Investment Manager Retention Policy mandates retention or termination of an investment manager.**



## **XI. Investment Manager Termination Guidelines**

### **Introduction**

From time to time it will be necessary for the System to terminate a contractual relationship with an Investment Manager and these actions must be viewed in the context of a business decision. Due to the sensitivity of this issue, the Board has established the following guidelines to assist in making these termination decisions. In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive bidding, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of plan participants and beneficiaries.

### **Clearly Defined Objectives**

Any action to terminate a manager may be based on one or more of the following primary criteria:

- significant changes in firm ownership and/or structure,
- loss of one or more key personnel,
- significant loss of clients and/or assets under management,
- shifts in the firm's philosophy or process,
- significant and persistent lack of responsiveness to client requests,
- changes in TRS's investment strategy eliminating the need for a particular style or strategy,
- chronic violations of TRS's Investment Policy or Parameters,
- unsatisfactory investment performance,
- identification of a new asset class or approach which has been approved in advance by the Board,
- a need for diversification of styles within an existing asset class, or
- a superior alternative to an incumbent has been discovered.

This list is not intended to be exhaustive. Manager terminations shall be assessed based on the specific facts and circumstances of each case. Prior to the termination decision, the primary and other relevant considerations shall be identified and described. An evaluation covering the quantitative and qualitative issues to be considered will be developed for each case and the relative importance of each evaluation area will be determined. Documentation regarding any such action should include, but is not limited to, the following items:

- a full description of the reason for the action, including the specific elements serving as the basis for the evaluation and identification of the relevant issues from the System's perspective,
- the assumptions made in the evaluation, if any,
- the results considered and/or qualitative issues upon which the action was based, and
- an objective discussion of the risks, costs, and expected benefits is also to be included if appropriate to the subject matter.

Given the importance of making timely and prudent investment decisions related to managers of concern, Staff and Consultant, with the approval of the applicable Staff Oversight Committee, may initiate termination of any manager that is deemed to no longer fit within the System's asset allocation and specific asset class structure. To ensure the appropriateness of such decisions, specific documentation will be presented to the Oversight Committee detailing the rationale for such activity.

In the event of termination, Staff and Consultant, with the approval of the Staff Oversight Committee, will transition assets from the terminated manager to the successful finalist of an investment manager search, rebalance to other TRS investment managers, assign the assets to passive index management, or utilize proceeds to facilitate cash requirements. A report shall be provided to the Investment Committee and Board.

**Proper Documentation and Full Disclosure**

When reviewing the documentation regarding the termination of an external investment service provider, the primary focus of the Investment Committee shall be on ensuring that the Staff Oversight Committee's decisions were well reasoned, thoroughly considered, and prudent. Toward this end, the Chair, Vice-Chair and Committee members may request the written supporting documentation to ensure disclosure of all relevant issues. In evaluating a termination decision, Staff, Consultant and the Committee should review documentation to ensure that the evaluation process was fair and consistently applied. Candidates for termination may, at the pleasure of the Committee or upon the recommendation of Staff and Consultant, be asked to make a formal presentation to the Staff and/or Committee prior to a termination decision, but any such meeting shall not be permitted to delay any action the Board deems appropriate.

## **XII. Transition Management**

### **Definitions**

Transition management is defined as the professional management of trading out of one portfolio of marketable securities (“legacy” portfolio) and into another portfolio of marketable securities (“target” portfolio), while controlling for the timeliness of trades, explicit and implicit costs, and market exposure relative to a predetermined benchmark. Transition management includes, but is not limited to, the termination and hiring of investment managers and interim management of the portfolio during the transition period. It also may apply to rebalancing between asset classes, large cash contributions/withdrawals to and from a manager and strategy changes within the fund. Transition management is most commonly utilized in domestic equity, international equity, and certain global income portfolios.

The implementation shortfall, which correctly captures both implicit and explicit costs, is generally used to measure transition events. This is the difference in the return between a hypothetical portfolio, in which positions are established at the prevailing price when the trade decision is made, and the transitioning portfolio’s actual return. Explicit costs are the direct costs of trading, primarily consisting of brokerage commissions and exchange fees and taxes. Implicit costs, by contrast, represent indirect trading costs such as the bid/ask spread, market impact (i.e. the effect trading has on market prices) and the opportunity cost (i.e. effect of market movements over the time it takes to execute a trade).

### **Objective**

Transitions are an important and inevitable element of portfolio management. The optimal method to use in executing a transition may vary significantly from one transition to another based on the types of assets involved and the timeframe in question. Generally, the System’s objective in a manager transition is to implement the change in a cost-effective, timely manner while maintaining the appropriate market exposure. Efforts should be made to minimize implementation shortfall, rather than any single cost component.

### **Transition Manager Pool Selection Process**

In order for portfolio transitions to occur in a timely, efficient and cost-effective manner, TRS established a pool of transition managers using a competitive RFP process, to ensure timely performance of transition management services. TRS staff manage the transition manager pool selection process and have discretion to reissue an RFP for transition managers for inclusion in the pool when necessary. The System’s transition manager pool consists of Staff Oversight Committee approved transition managers. When a portfolio transition is necessary, TRS staff select a transition manager from the pool to manage the transition taking into account the requirements of the specific transition and the qualifications and experience of the firm. The transition managers available in the pool are reevaluated as needed, and adjustments to the transition manager pool may be made by TRS staff when fiducially prudent.

### **Transition Manager Assignment / Scope of Services**

The criteria for choosing a transition manager to execute a transition will vary, just as the circumstances and types of portfolios being transitioned will vary. TRS does not use the same

metrics in evaluating a transition manager when rebalancing from global income to large cap equity as when changing international equity managers with similar mandates.

In selecting a transition manager for a given event, TRS staff will evaluate among other factors each transition manager's total cost estimate, as well as the proposed trading timeframe and implementation strategy. TRS staff will also consider each transition manager's capabilities and experience in the relevant securities markets.

In most instances transition management services will be executed by a transition manager in the System's approved transition manager pool. However, in some instances TRS staff may believe it is more appropriate for one of the System's investment managers to provide these services.

All transition manager assignments require the written approval of the Executive Director or designee. Prior to engaging in a transition, the Form of Transition Notice must be signed by the selected transition manager and TRS.

The transition manager's scope of services may include but is not necessarily limited to the following.

- A. Trading securities from the legacy portfolio(s) to the target portfolio(s). These trading services could encompass multiple asset classes and multiple managers across all capitalization range.
- B. Minimizing tracking error and maintaining asset class or benchmark exposure.
- C. Utilizing derivatives and ETFs when deemed appropriate.
- D. Reporting the outcome and results of the transition. The report shall include relevant statistics, including cost and full trading/transaction reports.

#### **Performance Measurement Reporting**

The transition manager shall provide a post-trade analysis to the System detailing the specific costs of the transition, including explicit and implicit costs. An evaluation will be made for each transition based on the transition's cost effectiveness and implementation efficiency.

Staff will provide to the Investment Committee, on an annual basis, a summary report of all transition activity occurring over the course of the fiscal year.

#### **Liquidation of Other Assets**

The System may, from time to time, receive stock distributions from its private equity managers as well as other miscellaneous securities distributions from private asset managers. These distributions will be liquidated in an orderly manner to maximize value. Staff may, at its discretion, utilize either the distributing broker or another transition manager, if such managers offer more efficient liquidation of distributed securities. Selection of another broker requires the concurrence of the Executive Director or designee.

The System may, from time to time, receive foreign currencies such as foreign tax reclaims. These foreign currencies will be converted to U.S. dollars in an orderly manner to maximize value.

Typically, the System's Custodian will provide the currency conversion services, unless Staff believes selection of another broker would be more advantageous to the System. Selection of another broker requires the concurrence of the Executive Director or designee.

### **XIII. Performance Benchmarks**

#### **Total Return Objective**

The most important investment return objective to be considered when evaluating the System’s performance is measured by a comparison of the fund’s return to the rate of return that must be achieved in order for TRS to meet its benefit obligations. While it is not critical to perform this comparison over shorter time periods (one to five years) the fund’s returns relative to its Total Return Objective over longer time periods (5 to 30 years) should be closely monitored. Based on recommendations by its Actuarial Consultant, the Board has adopted the following return objective:

**TRS’s Investment Return Objective is to achieve a total return of at least 7.00 percent per annum.**

#### **Asset Allocation Benchmarks**

Another important return objective to be considered when evaluating the fund’s performance is measured by a comparison of the fund returns to a set of Asset Allocation Policy Benchmarks (hereinafter referred to as the “Policy Index”). The Policy Index should represent the broad investment opportunities of each asset class in which TRS has chosen to invest. The returns of the Policy Index should be used as reference points against which the Board of Trustees, Staff and the Asset Consultant compare the fund’s total asset class returns. In situations in which the Board makes decisions to strategically overweight/underweight certain areas and/or to manage a portion of the assets actively, then this comparison should not be made to draw conclusions over time periods of less than a full economic cycle. However, if over a full economic cycle favorable results are not experienced, every effort should be made to determine if the strategic decisions remain justified given current information. Based on recommendations by Staff and Consultant, the Board has selected the following Policy Index:

<b>ASSET CLASS</b>	<b>POLICY INDEX</b>	<b>PERCENT OF TOTAL BENCHMARK</b>
<b>Public Equity</b>	<b>MSCI ACWI Investable Market Index</b>	<b>37%</b>
<b>Private Equity</b>	<b>Russell 3000 Index + 3.00%</b>	<b>15%</b>
<b>Global Income</b>	<b>Bloomberg Barclays Aggregate Index (Hedged)</b>	<b>15%</b>
<b>Private Credit</b>	<b>50/50 BBG US High Yield / Morningstar LTSA Leveraged Loan Indices</b>	<b>8%</b>
<b>Real Estate</b>	<b>TRS Real Estate Index<sup>2</sup></b>	<b>16%</b>
<b>Other Real Assets</b>	<b>CPI + 5.00%</b>	<b>2%</b>
<b>Diversifying Strategies</b>	<b>T-Bills + 4.00%</b>	<b>6%</b>
<b>Short-term Investments</b>	<b>ICE BoAML 91-day T-Bill Index</b>	<b>1%</b>
	<b>TRS Policy Index</b>	<b>100%</b>

<sup>2</sup> TRS Real Estate Index is a mix comprised of NCREIF Open End Diversified Core Equity, Burgiss Value Add, and Burgiss Opportunistic indices.

Again, recognizing the prudence of making measured movement toward long-term policy targets, the Board has set the following interim Policy Index:

<b>ASSET CLASS</b>	<b>POLICY INDEX</b>	<b>PERCENT OF TOTAL BENCHMARK</b>
<b>Public Equity</b>	<b>MSCI ACWI Investable Market Index</b>	<b>37%</b>
<b>Private Equity</b>	<b>Russell 3000 Index + 3.00%</b>	<b>15%</b>
<b>Global Income</b>	<b>Bloomberg Barclays Aggregate Index (Hedged)</b>	<b>15%</b>
<b>Private Credit</b>	<b>50/50 BBG US High Yield / Morningstar LTSA Leveraged Loan Indices</b>	<b>8%</b>
<b>Real Estate</b>	<b>TRS Real Estate Index<sup>2</sup></b>	<b>16%</b>
<b>Other Real Assets</b>	<b>CPI + 5.00%</b>	<b>2%</b>
<b>Diversifying Strategies</b>	<b>T-Bills + 4.00%</b>	<b>5%</b>
<b>Short-term Investments</b>	<b>ICE BoAML 91-day T-Bill Index</b>	<b>2%</b>
	<b>TRS Policy Index</b>	<b>100%</b>

This short-term Policy Index will be reviewed and adjusted as the System makes appropriate progress toward its long-term investment targets.

These policy benchmarks, once determined, allow the System to be judged (1) by its performance relative to broad market indices, (2) by its long-term performance relative to its actuarial assumptions, and (3) by its performance relative to other public pension systems as a reference point of oversight. Policy benchmarks will be reviewed and reaffirmed for suitability as part of the tactical plan or annual review for each asset class.

There may be short-term variations from these objectives; the Board believes, however, that over the long term (market cycle to market cycle), these goals should be attainable. In the short term, individual Managers will not be measured against the aggregate fund objective nor against the rate of return target outlined above. Managers may be evaluated using these criteria or standards:

1. against appropriate market indices on both a risk-adjusted and nominal basis;
2. against peers within their style groups;
3. on adherence to their stated investment styles; and
4. on adherence to this Investment Policy and compliance with their established parameters.

Staff and Consultant are responsible for implementation of the investment strategy, supervision of the System's Managers, performance monitoring and reporting. Updates will be provided to the Board (i) based on the schedule outlined in Section III, (ii) as requested by the Board, its Investment Committee or its Chair, and (iii) as deemed necessary by Staff and Consultant.

#### **XIV. Custodial Credit Risk**

Pursuant to the Illinois Pension Code 40 ILCS 5/16-179, the Board of Trustees has statutory authority to be the trustee of the reserves created under Article 16 of the Pension Code. Pursuant to 40 ILCS 5/16-181, the Board may deposit TRS trust funds with one or more banks, savings and loan associations, or trust companies. This policy addresses how TRS will handle custodial credit risk.

Credit risk is the risk that an issuer or other counterparty to an investment transaction will not fulfill its obligations. Custodial credit risk is the risk that, in the event of a financial institution failure, TRS would not be able to recover the value of deposits or investments in the possession of an outside party. To minimize this risk, TRS takes the following measures:

1. Perform due diligence for custody financial institutions and advisors with which TRS will do business and appropriately document business relationships with these service providers.
2. Provide investment parameters for the investment vehicles discussed in section XIV and further detailed in the specific Investment Manager Agreements.
3. Conduct an annual review of the financial condition of the custodian. If the review produces cause for concern, the Board of Trustees will determine appropriate action.
4. Endeavor to have all investments held in custodial accounts through an agent, in the name of custodian's nominee<sup>3</sup>, or in a corporate depository or federal book entry account system. For those investment assets held outside of the custodian, TRS will follow the applicable regulatory rules.
5. Require the custodian to meet the following requirements:
  - The custodian or its sub-custodians will provide safekeeping of all TRS securities in segregated accounts that reflect the holdings of TRS; the custodian will not commingle TRS securities with the custodian's own securities.
  - Monthly reports will be provided/made available by the custodian.

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<sup>3</sup> Registered owner of a stock or bond if different from the beneficial owner, who acts as holder of record for securities and other assets. Nominee ownership simplifies the registration and transfer of securities.



## **XV. General Investment Restrictions and/or Guidelines**

- Leverage used with any investment strategy will be consistent with the discipline for which the Board hired the Manager. Use of leverage will be controlled as appropriate in the Manager's investment parameters, and will be subject to review by Staff, Consultant, and/or Investment Committee.
- Assets may be held in commingled funds and/or privately managed separate accounts. Exposure through commingled funds shall be evaluated on a case-specific basis through analysis of the fund's "offering document" or equivalent. Upon review by the Staff and Consultant, the "offering document" or equivalent becomes the specific investment guidelines for that allocation.
- All investments made shall be subject to the type, quality, and diversification restrictions established by the Illinois Pension Code [40 ILCS 5].
- No investment or action pursuant to an investment may be taken unless expressly permitted by this Policy. Exceptions may be made subject to prior review by and express written authorization from the Board. In the event that any exception is discovered which has not been specifically authorized, the Staff will immediately provide to the Board a detailed explanation of the exception and action being taken to remedy the situation.
- If the Board elects to participate in a securities lending program, one or more Managers may be retained to lend investment securities of the fund. Cash collateral received from securities borrowers will be deposited upon receipt in an approved short-term investment vehicle or vehicles. The Agent may lend financial securities (including but not limited to U.S. and non-U.S. equities, corporate bonds and U.S. and non-U.S. government securities). This Agent shall have full discretion over the selection of borrowers (the System does reserve the right to prohibit any borrower) and shall continually review the creditworthiness of potential borrowers through extensive analysis of publicly available information and any other material available to them. All loans shall be fully collateralized. Securities on loan should be marked-to-market on a daily basis to assess adequacy of collateralization. The Agent shall provide periodic performance reports to the Staff and Consultant. The Securities Lending program should in no way inhibit the portfolio management activities of the other Managers of the System.
- Cash equivalents held by Managers can be disruptive to the allocation process. Managers are therefore expected to be fully invested at all times in the types of securities for which they have responsibility. Exceptions include the brief periods between the sale and purchase of securities, specific authorization granted to a Manager, or a direct allocation made by the System to a cash or low duration mandate.
- The Board is responsible for establishing and maintaining the Rebalancing Process outlined in Section VII. This process outlines the timing and method by which the portfolio is to be

rebalanced. Based on this process, it will be necessary to periodically rebalance the portfolio as a result of market value fluctuations. The Board has delegated the operational rebalancing responsibilities to Staff to be implemented in accordance with the Board approved process.

- With respect to the TRS investment portfolio, the Board supports the Managers' and investment funds' use of responsible contractors, subject in all cases to the Managers' and investment funds' obligation to satisfy their fiduciary duties. A "responsible contractor" is a contractor or subcontractor who: (1) has the relevant experience and expertise to perform the required work; (2) provides workers with fair wages and fair benefits as evidenced by payroll and employee records; and (3) is not debarred by a municipal, state or federal government. Fair wages depend on local practices and market factors, the scope and complexity of the project, comparable job or trade classifications, and would include all compensation required by applicable local, state, or federal laws. Fair benefits include but are not limited to employer-paid family health care coverage, retirement benefits, employee safety training programs and/or apprenticeship programs.
- The System is exposed to currency risk through its investment program. Over long periods of time, currency movements do not add significant returns to the portfolio. Board delegated discretion allows Staff to hedge this risk or seek return from this risk by employing active currency management. TRS utilizes unhedged benchmarks and does not require its Managers to hedge the currency exposure in their portfolios.

## **XVI. Performance Monitoring**

Performance reviews are a critical part of the portfolio management process. The Board will rely on its External Investment Managers, Consultant(s), Custodian, and Staff to provide periodic performance reviews.

**Managers:** shall, as directed by Staff, provide periodic performance reports utilizing a standardized reporting format for public market separate accounts. Managers may provide their standard performance information in a different format as supplemental information only, at their discretion. Managers may be asked to make periodic performance presentations to Staff, the Consultant and/or the Board.

**Custodian:** shall, as directed by Staff, provide periodic performance reports to Staff and Consultant. These reports shall detail the individual performance of Managers and the overall performance of the fund. If the System elects to engage in securities lending with the Custodian, the Custodian shall report the results of any securities lending activities undertaken during the reporting period.

**Consultant:** shall provide quarterly performance reports to Staff with the General Consultant providing reports to the Board at its regular meetings. In preparing these reports, the Consultant will rely upon asset values and performance calculations reported by the Custodian.

**Staff:** shall be responsible for ensuring that performance reports are received in a timely manner from these parties and will provide continual supervision of external performance reporting on the portfolio. Staff will work with the Consultant to complete a detailed performance measurement booklet on a quarterly basis. The executive summary will, at a minimum, include information for the most recently available one-, three-, and five-year periods.

## **XVII. Proxy Voting**

Active voting of proxies is an important part of the Board's investment program. Managers will be required to establish a proxy-voting program in coordination with System Staff and are required to vote proxies in the interests of the Members of the System. Records of proxy votes shall be maintained by the Managers and submitted to Staff and /or external service providers on request or at specified intervals.

Staff will monitor the proxy voting practices of the System's external Investment Managers. External service providers may be retained by the Board to assist Staff in its monitoring efforts. This monitoring will be coordinated with each Manager to reasonably assure the Staff that Managers are fulfilling their fiduciary responsibilities with respect to proxy voting.

Staff will provide a proxy voting summary report to the Board on an annual basis as soon as practical after fiscal year-end (June 30). At a minimum, the summary report will contain, for each applicable Manager, the number of ballots cast, the number of issues voted upon, and percent of issues voted with management, against management, and designated as abstaining. Staff also publishes on the TRS website an annual fiduciary report addressing, in part, how the System manages its proxy voting responsibility.

In those instances where Staff votes proxies (when assets are in transition, for example), proxy votes will be cast with management unless the Executive Director directs otherwise.

## **XVIII. Brokerage Expense Management**

As part of its fiduciary responsibility to the Members of the System, it is important that the Board maintain a prudent policy pertaining to brokerage commissions paid on securities transactions. This Policy supersedes any prior Brokerage Policy. The Board hereby delegates discretion over placement and execution of securities transactions to its Managers subject to the following considerations.

### **Brokerage Commissions**

It is the intention of the Board that all securities transactions be affected through brokerage firms consistent with best execution principles as outlined in the Investment Management Agreement with each Manager. TRS requires that its equity managers closely scrutinize brokerage costs, which vary with investment styles and philosophies as some transactions are more or less difficult to execute than others.

TRS's equity managers will, upon request, be required to provide Staff with a report showing all brokerage transactions effected on behalf of the System. The Custodian shall also provide brokerage information to Staff.

### **Soft Dollars**

The Board recognizes that "Soft Dollar" Commissions are allowed under Section 28(e) of the Securities and Exchange Act of 1934 (commonly referred to as the 'Safe Harbor' provisions). The Board requires its Managers to provide accounting of any soft dollar transactions involving securities of the System. These reports shall be provided on a quarterly basis to Staff and shall include the number of shares traded, dollar amount of soft dollar commissions, the brokerage firms to which they were directed, and an explanation of the goods or services received. The System will no longer employ internal soft dollar accounts for vendor payments; however, the Board recognizes that external Managers are allowed the use of soft dollars with Managers continuing to fulfill required disclosures to TRS Staff. All soft dollars generated under this section of the Investment Policy shall be the property of the System.

Managers are expected to work diligently in the effective management of the System's commission expenses. As part of its compliance monitoring efforts, Staff will report chronic or material violations of either the letter or the intent of this Brokerage Policy to the Board. Also, Staff shall provide the Board with an annual summary of brokerage activity including that of directed brokerage.

## **XIX. Sustainability Policy Statement**

TRS shall include material, relevant, and decision-useful sustainability factors that will be considered by the Board, within the bounds of financial and fiduciary prudence in evaluating investment decisions. These factors consist of but are not limited to:

- Corporate governance and leadership factors
- Environmental factors
- Social capital factors
- Human capital factors
- Business model and innovation factors

In addition, TRS's efforts will include prudently integrating the following:

- Periodic evaluation of sustainability factors to ensure the factors are relevant to the TRS investment portfolio and the evolving marketplace; and
- Periodic monitoring of investment managers to encourage implementation of the aforementioned factors.

Annually, the System also publishes on its website a fiduciary report generally addressing how the System considers sustainability factors, as defined in the Illinois Sustainable Investing Act, when managing its investment portfolio, pursuant to 40 ILCS 5/16-189. Specifically, the fiduciary report addresses the following: (1) the System's strategy as it relates to consideration of sustainable investment factors; (2) the process for regular assessment across the total portfolio of potential effects from systemic and regulatory risks and opportunities, including, but not limited to, sustainability factors on the System's assets; (3) how the System's investment managers integrate sustainability factors into their investment decision-making processes; (4) the System's proxy voting activities and management; and (5) the System's corporate engagement and other stewardship activities.

## **XX. Improving Access to the TRS Investment Process**

This policy on utilization of minority and female-owned Investment Managers and broker/dealers is intended to memorialize existing policy direction from this Board to the Staff. As a consequence of this policy direction, Staff has successfully increased utilization percentages and amounts expended on a consistent basis since Fiscal Year 2000.

To achieve continued utilization increases, this policy establishes progressive and measurable utilization guidelines that reflect our historic commitment and future vision.

The term MWBE "minority, women business enterprise" (MWBE) will be used for all firms as defined in the Illinois Business Enterprise for Minorities, Females, and Persons with Disabilities Act. On an annual basis, the Board will assess the effectiveness of the procedures established by which these objectives are to be met, unless circumstances warrant more frequent review.

Allocations of the System's assets to MWBE Investment Managers will be made in accordance with the fiduciary standards under which the Fund operates. Broker/dealer transactions completed with MWBE firms on behalf of the System must be completed at rates fully competitive with the market.

### **MWBE Broker/Dealer Utilization**

Annually, each public markets Investment Manager retained by the System shall establish a MWBE broker/dealer utilization objective that shall be consistent with the System's commitment to including all segments of the economic community. For Fiscal Year 2024, the objective shall be:

35.0% domestic equities, 17.0% international equities; 17.0% global income

On a quarterly basis, each Manager shall report on the progress towards attaining the adopted objective. Each report shall include all transactions involving or impacting a MWBE broker/dealer, whether by direct transaction, step-out, referred transactions, or any other means which provide economic benefit to a MWBE broker/dealer.

Investment Staff shall monitor the progress towards objectives, initiate necessary contact with Managers as required, and report their findings and conclusions to the Board. Investment Managers may be requested to appear before the Board, any Trustee designated by the Board, or Staff to discuss compliance with this policy. Managers may also become eligible for the System's Watch List based upon compliance with this policy.

At the time of becoming a search finalist, upon initial retention, and periodically as appropriate, all public markets Managers shall be provided written notice of the System's brokerage goals and expectations.

### **MWBE Investment Manager Utilization**

As a result of the System's commitment to the selection and retention of qualified MWBE investment managers, assets managed by MWBE firms have increased to over 20% of the trust

fund. Recognizing that additional increases are desirable and can be achieved as manager searches are conducted, the objective for Fiscal Year 2024 is 22% of the total fund.

In compliance with 40 ILCS 5/1-109.1, the Board will also establish diversity goals for both assets under management by and manager fees paid to MWBE investment firms within the System's broad asset classes. Separately and also in accordance with 40 ILCS 5/1-109.1, TRS staff will present to the Board as a finalist the best and most qualified MWBE firm for all of the System's public investment manager searches. Any candidate presenting as a finalist must still meet the minimum criteria as specified in the search profile.

Investment Staff shall monitor the progress towards objectives and report to the Board semi-annually. In addition to a utilization analysis, Staff shall report on significant steps taken to achieve the stated objectives.

### **Transition Management**

Prior to the award of a contract for transition management services, the Chief Investment Officer shall ascertain the transition manager's proposed utilization of MWBE broker/dealer services and determine that the proposal is consistent with the System's utilization objectives.

### **Trustee Oversight**

To ensure that all Trustees are aware of the System's efforts and achievements, the Investment Committee will review utilization of MWBE brokers/dealers and Investment Managers. The Chair shall be responsible for interfacing with the Consultant as necessary regarding the inclusion of MWBE firms in manager searches.



## **XXI. Emerging Managers Program**

### **Introduction**

The Trustees of the Teachers' Retirement System ("TRS") have established the following guidelines for management of the TRS Emerging Managers Program ("Program"). In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of plan participants and beneficiaries.

### **Clearly Defined Objectives**

The adoption of an Emerging Managers Program focuses on the development of long-term relationships between TRS and growing investment management organizations. The objectives of the Program include:

- Investment in promising younger, growing investment managers that currently have smaller asset bases and developing track records;
- Access to firms that, while possessing a marketable investment philosophy or process, have not dedicated marketing resources to identifying themselves to plan sponsors and the investment consultant community;
- Ability to better utilize minority- and female-owned investment managers, as well as Illinois-based investment managers.

In May 2005, the TRS Board approved a commitment of \$500 million for the creation of an Emerging Managers Program. At the time of commitment, this represented approximately 1.5% of the total Fund, with funding from the domestic large cap index fund. The Program represents a total commitment of over \$1 billion from the total fund. The Program will apply to both public and private markets asset classes, with evaluation criteria based on the specific asset class of each investment. Overall, the Program is intended to create meaningful long-term relationships with emerging investment managers with the objective that the superior performers will, at some time, progress into a full TRS investment allocation<sup>4</sup>.

### **Search and Selection Process**

The selection of emerging investment managers for participation in the Program will be accomplished from the following steps:

#### *1. Identification of emerging investment managers*

Initially, Staff will maintain information on a universe of identified emerging investment managers. The process is intended to be ongoing, with manager profiles added and performance information updated as necessary. Qualified investment managers will be encouraged, at any

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<sup>4</sup> Assignment to a full TRS investment mandate implies movement outside of the Program and into the overall portfolio allocation. These mandates are typically much larger assignments and are critical components to the TRS investment portfolio's positioning with regards to asset class and overall investment style diversification.

time, to submit detailed information with the relevant specifics of the firm's organization and investment products. The standardized informational questionnaire will be made available to all firms through TRS's web site, or as requested from Staff.

*2. Analysis for qualified candidates*

The second step is identifying emerging investment organizations and products that meet TRS criteria. Periodically, TRS Staff will review the information on all identified emerging investment managers. Staff will search for emerging managers possessing a strategy or process that appear to be well positioned for an allocation within the TRS investment portfolio.

*3. Solicit additional information from qualified candidates*

Once identified as a promising candidate, Staff will request further information relating to the manager's organization, investment philosophy, investment process, key personnel, risk controls, performance history and fee structure.

*4. Due diligence*

Following review of a candidate's detailed information, Staff will conduct a meeting with the firm's management team. As necessary, Staff will conduct due diligence to review, among other things, the depth of the firm's personnel, internal policies, technological resources, risk management capabilities and compliance monitoring. Any available analysis from the Consultant will also be included in the due diligence process.

*5. Final Recommendation and Selection*

Based on analysis of Staff and Consultant, Staff will recommend managers to the applicable Staff Oversight Committee for final approval. In choosing the finalists, Staff will favor those firms that, based on quantitative and qualitative factors, appear to have the highest probability of success over the next three to five years and appear to be best prepared to develop into a full TRS investment mandate outside of the Program. With approval, staff is authorized to implement the recommendation. At the next scheduled meeting of the Investment Committee following the commitment, staff will provide the Committee with necessary reports related to any commitment, including a selection/compliance checklist confirming adherence to Board- approved policies.

**Initial Funding**

Staff recommendations for a specific initial funding amount are made to the applicable Staff Oversight Committee. A number of factors will be considered when making an allocation recommendation, including:

- asset class and general diversification of the Emerging Manager Program
- product strategy and long-term fit within the TRS investment program

- risk/return profile of the product
- size and depth of firm, including long-term plan for institutionalization of firm

Recognizing the importance of a diversified program, the Program does not affect the broad long-term allocation targets of the total Fund. The intent of the Program is to develop long-term relationships with promising emerging managers that may, in the future, occupy full TRS mandates, therefore the Program is exempt from systematic rebalancing activity. Additional funding or withdrawals of capital from the Program or its participating managers will be based on continued analysis by Staff and Consultant, with formal recommendations presented to the Staff Oversight Committee as appropriate.

### **Proper Documentation and Full Disclosure**

When overseeing reviews of the delegated hiring of an external investment service provider, the primary focus of the Investment Committee and Board shall be on whether decisions followed established processes and procedures in the Pension Code, administrative rules and this Investment Policy. Toward this end, the Chair and Committee members may request the written supporting documentation to assure disclosure of all relevant issues. In evaluating a hiring decision, Staff, Consultant and the applicable Staff Oversight Committee should review documentation to ensure that the basis for the recommendation was fair, and that the screening process was consistently applied. Potential service providers or candidates may, at the pleasure of the Committee Board or upon the recommendation of Staff and Consultant, be asked to make a formal presentation to the Committee at any time.

### **Defining Expectations**

In the case where a manager is hired, the search process document shall include, but may not be limited to, the following:

1. a summary of performance criteria considerations,
2. the absolute and relative risks inherent in the manager's approach,
3. staff's qualitative assessment, and
4. identification of relevant comparative measures such as benchmarks and/or peer samples, and proposed fee structure.

Staff and Consultant shall incorporate the relevant factors related to expectations of the manager into the executed Investment Management Agreement.

### **Board Reporting and Monitoring**

After a manager is selected to the Program, Staff will regularly monitor the manager's results versus expectations. Staff will conduct periodic due diligence meetings with the outside organizations and may provide the Board with reports summarizing the assessments made. All material events regarding an investment manager will be communicated to the applicable Staff Oversight Committee and, when deemed necessary, to the Board.

### **Program Funding: Graduation/Termination**

Based on a manager's performance within the Program, combined with demonstrated development of the investment manager organization, staff may recommend graduation of a mandate into the TRS investment portfolio. The recommendation and related due diligence will be presented to the applicable Staff Oversight Committee for consideration and approval. In the event of a graduation, the Emerging Manager Program shall be "reimbursed" by the amount equal to the initial funding of the investment manager.

Similarly, in the event of a termination of a mandate from the Emerging Manager Program. In the event of termination, unless otherwise stated the Program shall be reimbursed by an amount equal to the initial funding of the investment manager.

Note that investments in private markets can differ from investments in the public asset classes due to the longer commitment period. In these cases, staff will provide a recommendation regarding graduation/termination to the applicable Staff Oversight Committee within two to five years from the initial investment. Based on the Staff Oversight Committee approval, the investment will be removed from the Program and reimbursement to the Program shall be completed as specified above.

### **Termination Guidelines**

As with all TRS investment managers, there will be instances in which it will be necessary for the System to terminate a contractual relationship with an Investment Manager. The same guidelines for managers within the Program will exist to assist in making these termination decisions. Specifically, any action to terminate a manager may be based on one or more of the following primary criteria:

- significant changes in firm ownership and/or structure
- loss of one or more key personnel
- significant loss of clients and/or assets under management
- shifts in the firm's philosophy or process
- significant and persistent lack of responsiveness to client requests
- changes in TRS's investment strategy eliminating the need for a particular style or strategy
- violations of TRS's Investment Policy or Parameters
- unsatisfactory investment performance
- identification of a new asset class or approach which has been approved in advance by the Board
- a need for diversification of styles within an existing asset class

This list is not intended to be exhaustive. Manager terminations shall be assessed based on the specific facts and circumstances of each case. Additionally, due to the nature of the Program, it may be necessary at some point to terminate a relationship given the inability of a manager to develop to the point that they might manage a full TRS investment mandate. The objective of the Program is intended to be a catalyst for the development of emerging investment managers. To the extent that an investment manager does not show the development characteristics

necessary to manage a full institutional mandate, allocations within the Program should be redirected to other managers showing those characteristics.

Prior to the termination decision, the primary and other relevant considerations shall be identified, described, and ranked by importance. An evaluation covering the quantitative and qualitative issues to be considered will be developed for each case and the relative importance of each evaluation area will be determined. Documentation regarding any such action should include, but is not limited to, the following items:

- a full description of the reason for the action, including the specific elements serving as the basis for the evaluation and identification of the relevant issues from the System's perspective
- the assumptions made in the evaluation, if any
- the results considered and/or qualitative issues upon which the action was based
- an objective discussion of the risks, costs, and expected benefits is also to be included if appropriate to the subject matter

Consistent with other termination guidelines, Staff and Consultant, with the approval of the applicable Staff Oversight Committee, may initiate termination of any public markets emerging manager meeting the System's Watch List criteria or for any other immediate concern(s) as specified above. In the event of termination, Staff, with the approval of the Staff Oversight Committee, will transition assets from the terminated manager to the successful finalist of a manager search, other TRS investment managers, passive index management, or cash accounts. A report shall be provided to the Investment Committee and Board at the meeting immediately following termination and transition.

## **XXII. Recovery of Investment Losses**

It is the policy of the Board of Trustees of the Teachers' Retirement System to pursue recovery of investment losses in keeping with its fiduciary duties to the System.

### **Class Action Securities Litigation**

When the System has sustained investment losses that may be recoverable through class action securities litigation, the System will participate as a member of the class. In accordance with industry practice, the System's master trustee or other appointed designee (Designee) is responsible for filing all US claims and other documents on behalf of the System to ensure that the System receives its pro rata share of any recovery. In the event the Designee cannot file on behalf of the System, Staff will work with litigation counsel to determine the appropriate course of action.

The Designee will provide the System with its most current class action procedures and will follow such procedures on behalf of the System. The Designee's class action procedures include reviewing various information sources for notification of class action suits, identifying transactions within the class period for the security involved and determining account eligibility, loading eligible accounts into the Designee's class action system, and preparing and filing a proof of claim and supporting documentation.

Investment Staff will monitor the Designee's compliance with its class action procedures. Staff will review all notices and information concerning potential or pending class action litigation that are received in the System's offices to ensure the case is included on the Designee's system. Staff will report periodically to the Board on recoveries realized as a result of class action participation. This policy does not preclude the Board from seeking the System's appointment as a lead plaintiff or from initiating independent securities litigation in a given instance, if the Board determines that active involvement will add significant value either in the specific case or on a long-term portfolio-wide basis and will not adversely impact the System. The Board's decision to pursue active involvement will be made in consultation with the Chair, the Executive Director, the Investment Staff, the Office of Legal Counsel, outside counsel, and such other professional advisors as the Board deems appropriate.

### **Bankruptcy**

In the event System assets are involved in or subject to a bankruptcy or similar proceeding, the investment manager responsible for the affected assets will notify the System of the proceeding and take appropriate steps to ensure that the System will receive any distribution or other relief to which it is entitled. Investment Staff will monitor performance of the master trustee's and the investment manager's respective duties in this regard and report to the Board quarterly any bankruptcy involving System assets or to which System assets are subject.

Originally adopted by the Board of Trustees on April 7, 2000; amended March 2001; amended May 16, 2002; amended August 16, 2002; amended December 6, 2002; amended February 21, 2003; amended May 23, 2003; amended June 10, 2003; amended August 15, 2003; amended February 20, 2004; amended April 2, 2004; amended May 25, 2004; amended August 10, 2004; amended October 29, 2004; amended December 10, 2004; amended February 18, 2005; amended May 20, 2005; amended August 12, 2005; amended September 26, 2005; amended November 4, 2005; amended December 8, 2005; amended May 19, 2006; amended May 18, 2007; amended October 26, 2007; amended April 11, 2008; amended June 19, 2008; amended May 21, 2009; amended June 18, 2009; amended June 24, 2010; amended December 9, 2010; amended June 24, 2011; amended August 23, 2012; amended December 11, 2012; amended February 22, 2013; amended June 20, 2013; amended June 24, 2014; revised December 31, 2014 to reflect all Board actions to date; amended June 30, 2015; revised December 31, 2015 to reflect all Board actions to date; amended July 1, 2016; revised January 1, 2017 to reflect all Board actions to date; amended July 1, 2017; amended December 15, 2017; amended January 1, 2018; amended May 25, 2018; amended June 14, 2019; amended December 31, 2019; amended July 1, 2021; amended January 1, 2022; amended July 1, 2022; amended December 31, 2022; amended December 12, 2023; amended July 1, 2024.

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