

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

Passive Fixed Income Mandate: US Long Treasury Index

**External Manager
CANDIDATE PROFILE
Posted June 24, 2024
Deadline July 12, 2024**

PROJECT PARAMETERS

1. Manager Style:

The Teachers' Retirement System of the State of Illinois (TRS) is seeking a passive US Long Treasury strategy to represent approximately 30% of the \$2+ billion Diversifying Strategies Composite. The allocation will be contingent on the ability of potential managers to consistently replicate the returns and risk of the Bloomberg US Long Treasury Index. Responses will be evaluated based on information provided through this process. Interested parties must complete and return the questionnaire provided in the final section of this search profile by the stated deadline.

2. Manager Type:

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

3. Investment Manager Diversity:

A "minority investment manager" is defined in Illinois state law¹ as a qualified investment manager that manages an investment portfolio and meets the definition of "minority-owned business," "women-owned business," or "business owned by a person with a disability," as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act². Candidates meeting the "minority investment manager" definition along with the screening criteria set forth in this Candidate Profile shall be identified as eligible. If any such managers are identified, the most qualified candidate shall be invited to present to the Investment Committee of the TRS Board of Trustees.

4. Amount to Be Allocated:

The mandate is subject to the manager selected but is expected to range from \$400 million up to \$1 billion. TRS intends to hire one or more managers in conjunction with the existing Diversifying Strategies structure.

¹ 40 ILCS 5/1-109.1(9)

² 30 ILCS 575/2

5. Investment Vehicles:

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

SELECTION PROCESS

6. Identification of Candidates:

RVK, TRS's investment consultant, will identify appropriate candidates based on product information submitted. **Please submit the questionnaire response, requested data and other pertinent information to RVK by sending an email to TRSI.PassiveFI.2024@rvkinc.com and indicate "2024 Passive US Long Treasury Search" in the subject line.**

List the name of your firm and product for consideration, as well as current contact information. Please utilize March 31, 2024, data. Please direct any questions to TRSI.PassiveFI.2024@rvkinc.com and indicate "2024 Passive US Long Treasury Search" in the subject line.

7. Selection of Semi-finalist Candidates:

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

8. Selection of Finalists:

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

SELECTION CRITERIA

Business and Organizational Factors

9. Total Product Assets:

TRS would prefer to retain a manager with at least \$5.0 billion in existing passive US Long Duration product and traditional fixed income assets across the firm. Managers with a stable and well-diversified client base that includes other public pension funds of similar size to TRS are preferred.

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

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

11. Experience and Stability of Professional Staff:

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

12. Geographic Location:

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

13. Involvement with Other Business:

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

14. Financial Well-Being of Firm:

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

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

15. Long Range Plan:

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

Investment Process Factors

16. Investment Style:

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

17. Manager Guidelines and Investment Management Agreement:

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

Client Service Factors

18. Client Communications and Rapport:

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

Performance Factors

19. Minimum Performance Record:

Candidates should have at least a ten-year track record in the proposed strategy or a substantially similar strategy managed by the same team using the same process.

20. Performance Screening Criteria:

Performance screening will focus on the history of each candidate to replicate the return and risk of the Bloomberg US Long Treasury Index across a substantial time period and during different market conditions.

21. Performance Comparisons:

Performance of the selected manager will be evaluated relative to the relevant peers identified by RVK and based on their ability to meet their stated tracking error targets.

Other Factors

22. Desirable Qualities:

- Well-established organization
- Consistent approach
- Disciplined investment process
- Depth of portfolio management and research personnel
- Institutional focus
- Performance consistent with the benchmark over time
- Strong communication skills

23. Fees:

Fees will be evaluated relative to industry norms and minimized to the extent possible. TRS will request proposals for asset-based fees from all finalist candidates.

24. Restricted Company Act:

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

Manager Questionnaire

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

1. Provide a general description and history of the firm, including:
 - a. When was the firm established? Describe the ownership structure of the firm. Identify affiliated or subsidiary organization(s) and designate the percent of parent firm's total revenue generated by the organization(s). If the firm is a joint venture partner, identify the percentage ownership and revenues recognized by each partner to the combined association.
 - b. What was the registration date of the Investment Advisers Act of 1940 for the firm? What was the date the firm began managing investment accounts for U.S. tax-exempt clients, and what was the date the proposed product was incepted?
 - c. Within the past five (5) years, have there been any significant developments in the organization (changes in ownership, personnel reorganization, new business ventures, etc.)? If so, please describe. Provide detail on the effects such developments have had on resources. Are any changes expected over the next five (5) years?
 - d. Over the past five (5) years, has the organization or any of its affiliates or parent, or any officer or principal of such entities been involved in any business litigation, regulatory or other legal proceedings? If so, provide a brief explanation and indicate the current status of the proceedings.
 - e. Please provide an Equal Employment Opportunity Commission (EEOC) chart.
2. Does the firm provide any product or service other than investment management? If so, elaborate on these services and indicate respective percentage of firm-wide revenues from each service other than providing investment management to clients.
3. Discuss the overall business objectives of the firm with respect to the passive management business. What percentage of assets and revenue does the passive management business

represent for the total asset management business of the firm?

4. Using the following format, complete this table of the firm’s ownership:

Minority/Female Ownership Structure	%
% African American Owned	
% Asian Owned	
% Hispanic Owned	
% Native American Owned	
% Other Minority Owned	
% Minority Female Owned	
% Non-Minority Female Owned	
% Total Minority & Female Ownership	

5. Identify the portfolio management team for the proposed product. Include portfolio managers, traders/trading supervisors, risk/compliance managers, and other key personnel.

Proposed Product:				
Key Personnel				
Name of Professional	Title and Responsibilities	Years of Experience	Years with Firm	Degrees/ Designations
Portfolio Manager(s)				
Research Analyst(s)				
Trading				
Risk / Compliance				
Other				

6. Please describe the hiring, compensation, and retention procedures for portfolio manager(s), traders, and research analysts.
7. Describe the firm’s backup procedures in the event the key investment professional assigned to this account should leave the firm or be transferred to other accounts or duties.

8. Please provide a thorough description of the philosophy and process used for tracking a stated index, including details on minimizing tracking error, reducing impact of index rebalances or reconstitutions, and incorporating announced corporate actions.
9. How does the firm approach the potential tradeoff between tracking error and trading costs to track a relevant index? What factors influence the use of full replication versus various types of portfolio optimization/sampling?
10. Summarize the software and other tools used during the investment process, including those related to management, trading, compliance and accounting. Please note which tools are third-party and proprietary.
11. What portions of the investment process (if any) are performed by outside firms (i.e., services that are “outsourced”)? Please explain the rationale for outsourcing any investment tasks and to what outside firm they are delegated.
12. Has the product performance been audited and verified by a third party? If so, by whom and for what period?
13. List those features that distinguish the firm’s investment approach from competitors.
14. Please provide the number of clients to which the firm provides passive investment management as well as the largest client account size across the passive management business.
15. Please complete the following table to illustrate exposure to all client types invested in passive managed products at your firm.

Period	Passive Managed Asset Information		
	\$ AUM with All Clients	\$ of AUM with Public Clients	\$ of AUM with DC Clients
2023			
2022			
2021			
2020			
2019			

16. Please provide the number of public plan clients to which the firm provides passive investment management, and the largest public plan account size for this product.

17. Provide a fee proposal for the strategy. Multiple vehicles can be submitted for the same strategy, please provide the same details for each vehicle. Assume a mandate size of \$1 billion.

- Vehicle Type (if commingled fund, indicate lending or non-lending):
- Vehicle Assets (\$M):
- Additional Operational/Administrative Fees (not captured in management fee):
- If the proposed vehicle engages in securities lending, please provide the % split between the fund and manager:
- Proposed Management Fee Schedule:

18. Provide a spreadsheet which includes monthly returns, gross and net of management fees, for the proposed passive investment strategy. If offering more than one vehicle, please provide all applicable track records in the same format.

If a vehicle that engages in securities lending is proposed, please be prepared to fill out an additional questionnaire regarding the lending program.