

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



**REQUEST FOR PROPOSALS FOR  
DIVERSIFYING STRATEGIES CONSULTANT SERVICES**

**July 14, 2023**

**Responses due August 15 by 2:00 pm CST**

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## I. Introduction

The Teachers' Retirement System of the State of Illinois (the System or TRS) is requesting proposals to provide advisory services and to act as a fiduciary to the System with respect to diversifying strategies ("DS") and/or hedge fund investing. 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 diversifying strategies 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 400,000 members and had over \$64 billion in assets held in trust for its membership as of March 31, 2023.

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 and there are satellite offices in Lisle and Chicago, Illinois.

### **III. Services Required**

The diversifying strategies asset class has a current fund level target of 4% of total plan assets and currently consists of one fund of funds relationship and the rest direct relationships. As of March 31, 2023, TRS had approximately \$3.5 billion invested in the diversifying strategies program.

TRS broadly envisions a concentrated approach for the diversifying strategies portfolio. This will likely entail a combination of incremental funding of existing managers and the addition of attractive direct investments that will complement the portfolio. As part of this planned expansion, TRS is seeking the services of a diversifying strategies advisor to help it deploy capital prudently.

The DS consultant will have a non-discretionary advisory relationship with the System. The advisor will assist staff and the TRS Board of Trustees (“Board”) with the management of the DS portfolio. The advisor will also act as a fiduciary to the System and provide the following services:

#### **1. Strategic Direction/Structure of the Portfolio**

- Provide input to capital market assumptions (risk, return and correlation) for the asset class including supporting research and industry perspective
- Review TRS Investment Policy and recommend revision, as necessary, related to diversifying strategies investments
- Provide insight into industry trends and products/strategies in which TRS may not currently be an investor

#### **2. Investment Manager Research**

- Work closely with staff to recommend suitable investments
- Conduct initial and ongoing due diligence of investment managers or funds
- Verify that all manager activity is lawful, ethical, reasonable and in the best interest of TRS
- Any recommendation for investment must be supported by appropriate written documentation

#### **3. Monitoring/Reporting**

- Monitor performance of DS investments
- Provide quarterly analysis of benchmarks across the entire TRS DS portfolio as applicable and create a custom benchmark appropriate for TRS’s portfolio
- Periodically report to staff and/or Board
- Reports must include a detailed review of performance, attribution and relevant comparison to similar funds and the overall hedge fund universe
- Proactively identify areas of heightened risk or new opportunities
- Work with staff to select and implement a DS performance monitoring infrastructure
- Work with staff to develop monthly reporting standards and guidelines

#### **5. Back Office Support**

- Assist staff in implementing best practices commensurate with the scope of the program

- Provide resources and specific recommendations to improve existing middle and back office processes
- Work with the TRS custodian regarding accounting and performance issues within the DS asset class

### **Industry Best Practices**

- One of the special services that TRS will look for in an advisory relationship will be to conduct a best practices study of its diversifying strategies investment program for the purpose of improving decision making and portfolio management. The goal is to improve investment performance and risk management of the entire diversifying strategies investment program at TRS. This is not meant to be a study of best practices solely of other large public pension funds; rather, it is to be a best practices study of the best hedge fund institutional investors.
- This strategic alliance will be an important relationship to the TRS. The successful firm will be viewed as an integral part of the TRS investment team and may be asked to provide a variety of research, analysis, and advice on related topics.
- The study should be a comprehensive review and independent analysis of due diligence and operational processes and conclude with actionable recommendations to improve the investment management of the program.

## **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. 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 Board of Trustees of the Teachers' Retirement System of the State of Illinois, at any time prior to October 31, 2023.
- 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 or TRS 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 F including all certifications and representations contained therein, and that the proposer acknowledges and understands that certain 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 and/or 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 Invitation for Bids 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.

## **2. Vendor Type Verification Form**

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

## **3. Statement of Minimum Qualifications**

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

#### 4. Reference Checks

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

#### 5. Questionnaire

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

#### 6. Fee Proposal

Proposers must submit their fee 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 costs and expenses for providing the services to TRS as described in this RFP. Once finalists are selected, fees may be subject to a “best and final” offer process to be determined at the discretion of the System. The fee proposal must expressly state that the proposed fees are guaranteed for the term of any resulting contract.

#### 7. Contract

This Request for Proposal is neither a contract nor meant to serve as a contract. It is anticipated that one or more 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 F, 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 firms 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. CST on August 15, 2023.** Proposals should be in an Adobe Acrobat format and should be emailed to Heidi Darow at [bidsubmissions@trsil.org](mailto:bidsubmissions@trsil.org). Subject must contain **“Response to Request for Proposals for Diversifying Strategies 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. TRS is not responsible for receipt of any proposal which is improperly labeled. An email confirmation will be sent confirming receipt of the proposal.

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, firm, partnership, corporation, or combination thereof, will be considered for this assignment.

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**

### **1. 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.

### **2. Proposal Evaluation**

Proposals that pass the pre-evaluation review will undergo an evaluation process conducted by TRS staff. TRS will consider the following various elements in the decision process, ranked in no specific order, and will render a decision based on the perceived best value for the engagement. Fees 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:

- Understanding of the services requested
- Soundness of the approach and quality of the proposed services
- Firm qualifications including established record of success in similar work
- Individual qualifications of the assigned staff
- Proposed deliverables
- 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.

Finalists may be scheduled for one or more oral presentations or interviews with TRS 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*

Date RFP Issued	July 14, 2023
Deadline for Submitting RFP Response	August 15, 2023
Proposal Evaluation	August-September 2023
Finalist Interviews	Sept/Oct 2023
Finalist Presentations	October 2023
Firm(s) Selected/Contract Begins	November 1, 2023

## VIII. General Conditions

### 1. Clarification of the RFP

To maintain the integrity of the RFP process, interested proposers are expected to respond to this RFP to the best of their understanding **without asking questions or requesting clarification**. If a proposer discovers an error in this RFP, the proposer should immediately notify TRS of such error in writing to Heidi Darow 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.

### 2. 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 TRS staff or TRS Trustees, other than as specifically stated in this RFP, may disqualify the proposer from further consideration.**

### 3. 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.

#### **4. 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.

#### **5. No Confidentiality**

Proposals and all materials submitted in response to this RFP cannot be considered confidential. 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.

#### **6. Equal Opportunity**

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

## **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

The prospective advisor must substantiate that the firm satisfies the minimum qualifications, to TRS's satisfaction, to be given further consideration. This certification and the associated proposal must contain sufficient information as prescribed to assure TRS of its accuracy. Failure to provide complete information, based on TRS's sole judgment, will result in the immediate rejection of the proposal.

Prospective Advisor Firm Name: \_\_\_\_\_ certifies that it meets the following minimum qualifications.

Please initial as applicable.

1. \_\_\_\_\_ Has at least five (5) years of diversifying strategies consulting experience performing related services for institutional investors
2. \_\_\_\_\_ As of December 31, 2022, the firm has at least three (3) institutional clients for which it is providing hedge fund advisory services
3. \_\_\_\_\_ The advisor agrees to function as a fiduciary to the System for the services described in the RFP

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

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

**Appendix C: Reference Authorization Letter**  
*[On prospective firm letterhead]*

[Month, Day, Year]

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

Dear [Reference Name]:

*(Prospective Firm Name)* has submitted a proposal to the Teachers' Retirement System of the State of Illinois ("System") with regard to providing diversifying strategies consulting services. The System is conducting its due diligence with regard to *(Prospective Firm Name)*. Through this written authorization, *(Prospective Firm 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 Firm 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 Firm Name)*

*(Authorized Signature and Title)*

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

## Appendix D: Questionnaire

The following diversifying strategies consultant services 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.

### 1. Contact and Firm Information

Name of Firm: \_\_\_\_\_

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

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

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

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

Contact Person(s):

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

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

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

### 2. General Firm Information

- a. Provide a historical overview of your firm including ownership
- b. Describe the financial condition of your firm and include a copy of the firm's financial statement for the most recent annual reporting period
- c. Describe any significant developments in your organization that have occurred since January 1, 2018 (changes in ownership, personnel, reorganization, etc.). Describe any anticipated near term changes as well
- d. Provide details on any primary consultant, officer, or principal involvement in any business litigation, regulatory, or other legal proceedings or government investigation involving allegations of fraud, negligence, criminal activity, or breach of fiduciary duty relating to investment consulting activities
- e. Describe in detail any potential conflicts of interest your firm may have in providing consulting services to TRS including affiliate organizations
- f. Provide the levels of insurance coverage, including the amounts of errors and omission insurance and any other fiduciary professional liability insurance your firm currently carries, and list the insurance carriers supplying the coverage
- g. Provide a copy of your firm's Ethics Policy
- h. Disclose the dollar amount and nature of all material beneficial relationships, which the firm or any affiliate of the firm, engages in with investment manager clients
- i. Describe in detail the various service models and the number of clients subscribed to each model
  - i. Want to see how many clients subscribe to additional layers of services beyond the basic one perhaps
  - ii. Should we ask the median size of clients per service model? Or focus on institutional level relationships with multiple contact points?

- iii. Identify any current or former professional or personal relationship of any nature whatsoever with any current or former member of the TRS Board. Identify any other matters that would be required to be disclosed pursuant to the “Conflict of Interest” provision contained in the sample agreement enclosed in this RFP.

### **3. Clients**

- a. Provide a comprehensive list of institutional clients, highlighting those gained in the last three years
- b. Provide a list of all clients lost since January 2018 and the reasons for the loss
- c. Provide the name, address, phone number, contact name and title of three clients to TRS that can be contacted as references. Also indicate the length of your relationship and assets under management/advisement for each reference. Provide the same information for three clients that have terminated your services over the past three years

### **4. Personnel**

- a. List your firm’s key professionals. Identify those who will be assigned to the TRS’s account including biographies for all owners, directors, and investment staff performing manager and operational due diligence
- b. Describe the duties and responsibilities of each partner and investment professional that would be dedicated to this program
- c. Indicate when and why any senior personnel or key professionals left or joined the firm in the last five years. (For personnel who have left indicate job titles and years with the firm and who replaced them)
- d. Describe your firm’s backup procedures in the event the key consultants assigned to this account should leave the firm
- e. If your firm is awarded a contract, who would have direct responsibility for the TRS Account? What other accounts (by name) will the individual retain? What percentage of their time would be devoted to TRS’s Account?
- f. Provide biographies of the key individuals who would be assigned to the TRS account

### **5. Firm Capabilities**

- a. Describe key strengths and competitive advantages of the firm that will provide superior service
- b. Describe the firm’s capabilities to share and leverage information across the organization
- c. Describe the firm’s ability to deliver timely and pertinent information to TRS staff and the process to provide this information
- d. Describe the firm’s capabilities to provide education to staff and the Board of Trustees
- e. Is your firm acting as fiduciary for discretionary hedge fund portfolios? If so, describe how that model help TRS’s direct portfolio
- f. If applicable, please provide a current model portfolio for a hedge fund / alternative beta mandate.
- g. Please include any other information for consideration

## 6. Services

The scope of services will include six general themes and include a) strategic direction/structure of the portfolio; b) investment manager research; c) operational due diligence; d) monitoring/reporting; e) back and middle office administration; and f) transition management

- a. Strategic Direction/Structure of the Portfolio
  - i. Describe the prospective process for determining the optimal structure and strategic direction for the ARS portfolio with respect to the System
  - ii. Provide a case study focusing on the above involving a similar institution
- b. Investment Manager Research
  - i. Describe best practices in evaluating investment managers
  - ii. Provide details on how the firm maintains best practices
  - iii. Provide an example report of an approved and a rejected manager
  - iv. Describe the process in which client directs manager research for a fund/vehicle that is not already covered in your database
  - v. Discuss your firm's tracking system for prospective investments
  - vi. Describe your coverage of hedge funds and alternative risk premia investments
- c. Operational Due Diligence
  - i. Describe best practices in operational due diligence
  - ii. Define how the firm evaluates and ensures that parties adhere to these practices
  - iii. Describe the depth of background investigations
  - iv. Provide an example report of an approved and a rejected manager
  - v. Describe the process in which client directs manager research for a fund/vehicle that is not already covered in your database
- d. Portfolio Monitoring and Reporting
  - i. Define best practices for portfolio monitoring and reporting
  - ii. Describe how the firm meets these criteria in a timely and effective fashion
  - iii. Describe in detail how your risk modeling process works, including the stress scenarios you run.
  - iv. Provide an example of your reporting of a sophisticated quantitative manager.
- e. Back and Middle Office Administration
  - i. Define best practices for middle and back office processes
  - ii. Describe how the firm can assist TRS in achieving best practices
- f. Discretionary Models
  - i. Please indicate if your firm provides or has the capabilities for discretionary asset management.
  - ii. Please provide all historical performance, sources of value add, all relative risk metrics for various types of full discretionary portfolios across all asset types, i.e., direct lending, specialty finance, real estate debt, etc
  - iii. If your firm acting as fiduciary for discretionary portfolios?
  - iv. Please discuss the administration and accounting functions of your discretionary platform.
  - v. Please discuss the pros/cons of discretionary models.



## **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.

- A. Annual fee for full-service consulting arrangement: Please detail the scope of services to be provided under such arrangement and provide quotes for any additional services
- B. Annual fee for quarterly performance measurement and portfolio monitoring reports
- C. Fee for manager search projects: investment related due diligence (IDD)
- D. Fee for manager search projects: operational related due diligence (ODD)
- E. Fee for asset allocation and portfolio construction services
- F. Fee to monitor and report on the diversifying strategies portfolio
- G. Hourly billing rates for special projects or services
- H. 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?
- I. Are all related travel expenses of the investment consultant pertaining to attendance at Board meetings and onsite meetings included in your fee proposal?

**Appendix F: [SAMPLE] AGREEMENT FOR PROFESSIONAL SERVICES  
(Diversifying Strategies Investment Consulting Services)  
(SAMPLE AGREEMENT)**

This [SAMPLE] AGREEMENT FOR PROFESSIONAL SERVICES (this “Agreement”) is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2023, 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 \*[INSERT NAME/ADDRESS/LEGAL STATUS OF CONTRACTOR], a \*[INSERT LEGAL STATUS OF CONTRACTOR] (“Contractor”).

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 an 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 TRS Board of Trustees resolved on XXX, to engage Contractor to perform the work specified in this Agreement;

NOW THEREFORE, Contractor agrees to provide professional services to the System as more fully detailed below:

1. **Services:** The System hereby appoints the Contractor as a diversifying strategies investment 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. Under the direction of the Board, the Executive Director and Chief Investment Officer or a designee, the services and deliverables (the “Services”) to be provided by the Contractor shall include, but are not limited to, the following:

[DESCRIBE SERVICES]

2. **Compensation:**

- a) Contractor’s annual retainer for Services provided under this Agreement shall be as follows, payable in arrears in quarterly installments:

[AS AGREED]

- b) Such fee shall include 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.

- c) All out-of-pocket expenses attributable to performance of the Services under this Agreement and attendance of Contractor's personnel at meetings of the System's Board of Trustees and the Investment Committee thereof as requested, 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.

Further, Contractor is independently responsible for its other overhead and business expenses, including costs of personnel, software and equipment, telecommunications and Internet services, postage, delivery, and copying.

- d) Contractor represents, warrants and agrees none of Contractor's diversifying strategies investment consulting clients with total defined benefit portfolio values equal to or less than the System's total defined benefit portfolio value (an "other client") pay, or will pay, fees which are less than the rates described in this Section 2. Contractor agrees to provide prompt prior written notice of the provision of any fee terms to any of Contractor's new or existing clients which result in or have the potential to result in another client receiving more favorable fee terms than the System's. If more favorable fee terms are provided to another client, the System shall receive the benefit of the lower rates as of the effective date of the rates' inception with the other client.

3. **Billing:** Contractor shall submit quarterly invoices for Services provided hereunder in accordance with terms outlined below:

- a) The amount shown on the invoice shall be in accordance with the fee or rate schedule provided herein.
- b) By submitting an invoice, Contractor certifies that the Services provided meet 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. Invoices shall be signed by Contractor and shall set out Contractor's social security number or FEIN.
- c) Invoices submitted by Contractor for the Services 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.
- d) 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.

4. **Payment:** Payments will be paid in accordance with the Prompt Payment Act, 30 ILCS 540. Payment will be made 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 sound generally accepted accounting principles (GAAP). TRS shall not be liable to pay for Services rendered, including related expenses, incurred prior to the Effective Date of this Agreement.

5. **Term of the Agreement:** The Services under this Agreement shall be provided between XXX and XXX (not to exceed five years) unless earlier terminated in accordance with Section 35 of this Agreement (the “Term”). The Term of this Agreement shall not be extended.
6. **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. The System’s defined benefit investment policy (the “Investment Policy”) in effect as of the date of this Agreement, which document is attached hereto and fully incorporated herein as Exhibit A, may be amended from time to time by the System by written notice furnished to the Contractor.
7. **Applicable Law:** This Agreement and Contractor's Services hereunder are hereby made, and Contractor must perform the Services 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.
8. **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.
9. **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.
10. **Building Security:** Contractor shall comply with the System’s security procedures during the time Contractor’s personnel are on the premises.
11. **Certifications:** 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:

- a) **Educational Loan:** Contractor, in accordance with the Educational Loan Default Act, is not in default on an educational loan. **5 ILCS 385.**
- b) **Ethics:** Contractor acknowledge that 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.**
- c) **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.**
- d) **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.**
- e) **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.**
- f) **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.**
- g) **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.**
- h) **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.**

- i) **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.**
- j) **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.**
- k) **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.**
- l) **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.
- m) **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.**
- n) **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.**
- o) **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.**

- p) **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.**
- q) **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.**
- r) **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.**
- s) **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.**
- t) **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.**
- u) **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.**
- v) **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.**

w) **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.**

x) **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).**

12. **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 acknowledges receipt of the System’s Investment Policy in effect as of the date of this Agreement, which document is attached hereto and fully incorporated herein as Exhibit 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.

13. **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, agents, and subcontractors 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: that is lawfully in the receiving party's possession prior to acquisition under this Agreement; that was received in good faith from a third party not subject to any confidentiality obligation; that is or becomes publicly known through no breach of confidentiality obligation; or 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, agents, subcontractors and any third party to whom it discloses Confidential Information in accordance with this Agreement.

14. **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.**
  
16. **Employment Status:** Contractor and all personnel that Contractor assigns to perform Services 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 the 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. 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. All personnel performing Services 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.
  
17. **Entire Agreement:** This Agreement 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. Any provision of this Agreement officially declared void, unenforceable, or against public policy, shall be ignored and the remaining provisions shall be interpreted to give effect to the parties' intent. 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.
  
18. **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.

19. **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: \_\_\_\_\_

Legal status of business: \_\_\_\_\_

Tax classification:  S = S Corporation  
[Check only if legal status is  C = Corporation  
a limited liability company]  P = Partnership

20. **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.

21. **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.

22. **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 Services

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 Services 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 Services set forth in this Agreement, in which event the System, at its own option, may immediately terminate this Agreement upon written notice to Contractor.

23. **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 provided, delivered or made available by Contractor infringe upon or misappropriate the Intellectual Property Rights (as defined in Section [36]) 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.

24. **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.

25. **Nonexclusive Agreement:** Contractor understands, acknowledges, and agrees that Contractor does not have an exclusive agreement with the System to provide the Services hereunder, and that the System may engage others to provide the Services without any obligation to Contractor.
26. **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: Heidi Darow, Purchasing Manager  
                         2815 W. Washington St., P.O. Box 19253  
                         Springfield, Illinois 62794-9253  
                         Phone: 217-814-2049  
                         Fax: 217-753-0969  
                         Email: [Purchasing@trsil.org](mailto:Purchasing@trsil.org)

27. **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.
28. **Performance Review:** Contractor's performance of the 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.
29. **Records Retention:** 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 six (6) years from the later of the date of final payment under the Agreement or completion of the Agreement. Such six-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 Illinois 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 reasonable copying and administrative costs associated with a review or audit of such books and records, however audits requiring CPA involvement or extraordinary measures may result in a request for reimbursement of costs. Contractor shall take reasonable steps to ensure that its subcontractors are in compliance with this provision.

30. **Reporting:** Contractor, in conjunction with the System's investment staff, shall submit periodic written 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.
31. **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.
32. **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 conclusion of this Agreement.
33. **Subcontracting and Assignment:**
  - a) This Agreement may not be assigned or transferred in whole or in part without a written amendment duly executed by both parties. 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.
  - b) If Contractor intends to utilize one or more subcontractors in 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.
34. **Third Parties Operating Policy and Technology Use Policy:** Contractor shall also comply with the System's Third Parties Operating Policy and TRS Technology Use Policy which shall be provided to Contractor.

**35. Termination:**

- a) This Agreement may be terminated at any time by the mutual consent of the System and Contractor.
- b) Either party may, without the consent of the other party, terminate this Agreement upon 60 days' prior written notice to the other party.
- c) 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.
- d) Upon notice of termination, Contractor shall cease 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 Services 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 the Services that were not rendered by Contractor.
- e) 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.

**36. Use and Ownership:** Unless otherwise specified in this Agreement, and except for Pre-Existing Contractor Materials (as defined below in Section [37]), 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 Services provided under the Agreement, 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 contained in such work shall be subject to all confidentiality provisions of this Agreement. 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.

**37. Grant of Rights to the System in Pre-Existing Contractor Materials:** To the extent that Contractor incorporates Pre-Existing Contractor Materials into the Services, 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 Services. The term “Pre-Existing Contractor Materials” means work or materials that: (a) are identified with in this Agreement; and (b) embody Pre-Existing IP. The term “Pre-Existing IP” means, collectively: (i) Intellectual Property Rights that, as between the parties, Contractor owns prior to the Effective Date; and (ii) Intellectual Property Rights that Contractor develops independently of its obligations under this Agreement after the Effective Date.

38. **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.
39. **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.
40. **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, which may be withheld, conditioned, or withdrawn for any reason.
41. **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.
42. **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 background checks and 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, 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, 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. 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.

43. **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 diversifying strategies 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, executive or director of the Contractor or any other person that owns five 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 dates below.

[SIGNATURE BLOCK]

**Exhibit A**

INVESTMENT POLICY  
Adopted April 7, 2000  
Revised December 31, 2022  
(see attached)

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

***INVESTMENT POLICY***

Adopted by the Board of Trustees  
April 7, 2000

Revised  
December 31, 2022

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

# INVESTMENT POLICY

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## **I. Mission Statement**

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**

TRS will continually deliver the retirement security promised to our members by maintaining the highest and most efficient level of service and by living our values:

- Put the best interest of others first
- Diversity
- Teamwork
- Continuous improvement

## 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 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 in managing retirement system assets or in administering the retirement system, or who renders investment advice 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 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 among its key duties is provision of benefits to its members. In order to do so 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 Real Rate Investment Objective:

#### **TRS's Total Fund Real Rate Investment Objective**

*The goal of TRS's investment strategy is to achieve a total real rate of return of at least 4.75 percent per annum.<sup>1</sup>*

#### **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 contribution, 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. Monitoring will include realized and expected measurements utilizing various systems and consultant data. It is understood that there

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<sup>1</sup> The real rate of return is the rate by which long-term total return exceeds the long-term inflation rate. The Board employs an Actuarial Consultant for purposes of determining an appropriate inflation rate to be used in calculating TRS's pension obligations. The current assumed inflation rate is 2.50 percent per annum.



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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 real 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:

<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. It is anticipated that the Chair will be an active participant in Staff/Consultant deliberations and will, as time permits, communicate regularly with the Chief Investment Officer and Investment Staff to monitor Staff's execution of the investment program and to review in advance matters to be presented by the Investment Committee to the Board. The Chair and, in the event the Chair is absent or unavailable the Vice Chair, will also be responsible for reviewing, as necessary, investment actions to ensure Staff recommendations are consistent with previously established Board policies and/or directives. Generally, it is expected that the Committee will review these issues 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 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>4%</b>	<b>5%</b>
<b>Income</b>	<b>26%</b>	<b>25%</b>
Global Income	26%	23%
Short - Term	0%	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>4%</b>	<b>10%</b>
<b>Income</b>	<b>21%</b>	<b>26%</b>	<b>33%</b>
Global Income	21%	26%	31%
Short-Term	0%	0%	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>2</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 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 others 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:

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<sup>2</sup> Meetings with Passive Managers are generally held biennially rather than annually.

- 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 should 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.

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 Board will be able to satisfy any interested party that 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

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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. 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**

TRS staff will manage the transition manager pool selection process. The System’s transition manager pool consists of Staff Oversight Committee approved transition managers. To be considered for inclusion in the transition manager pool, transition managers must complete the TRS Transition Management Request for Proposal. Proposals will be evaluated based upon the criteria outlined in the RFP, which may include: quality and completeness of the response, ability to fulfill the requirements of the scope of services, and the qualifications and experience of the firm. TRS reserves the right to reject any and/or all proposals prior to the execution of a contractual agreement. The transition manager pool will be reevaluated as needed.

### **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 are 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

#### Real 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 real 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 Real Rate of 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 real return objective:

**TRS's Real Rate of Return Objective is to achieve a total return of at least 4.50 percent per annum in excess of the inflation rate.<sup>3</sup>**

#### 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:

<i>ASSET CLASS</i>	<i>POLICY INDEX</i>	<i>PERCENT OF TOTAL BENCHMARK</i>
<i>Public Equity</i>	<i>MSCI ACWI Investable Market Index</i>	<i>37%</i>
<i>Global Income</i>	<i>Bloomberg Barclays Aggregate Index (Hedged)</i>	<i>26%</i>
<i>Real Estate</i>	<i>TRS Real Estate Index</i>	<i>16%</i>
<i>Private Equity</i>	<i>Russell 3000 Index + 3.00%</i>	<i>15%</i>
<i>Other Real Assets</i>	<i>CPI + 5.00%</i>	<i>2%</i>
<i>Diversifying Strategies</i>	<i>T-Bills + 4.00%</i>	<i>4%</i>
<i>Short-term Investments</i>	<i>ICE BoAML 91-day T-Bill Index</i>	<i>0%</i>
	<i>TRS Policy Index</i>	<i>100%</i>

<sup>3</sup> The real rate of return is the rate by which long-term total return exceeds the long-term inflation rate. The Board employs an Actuarial Consultant for purposes of determining an appropriate inflation rate to be used in calculating TRS's pension obligations. The current assumed inflation rate is 2.50 percent per annum.

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

<i>ASSET CLASS</i>	<i>POLICY INDEX</i>	<i>PERCENT OF TOTAL BENCHMARK</i>
<i>Public Equity</i>	<i>MSCI ACWI Investable Market Index</i>	<i>37%</i>
<i>Global Income</i>	<i>Bloomberg Barclays Aggregate Index (Hedged)</i>	<i>23%</i>
<i>Real Estate</i>	<i>TRS Real Estate Index</i>	<i>16%</i>
<i>Private Equity</i>	<i>Russell 3000 Index + 3.00%</i>	<i>15%</i>
<i>Other Real Assets</i>	<i>CPI + 5.00%</i>	<i>2%</i>
<i>Diversifying Strategies</i>	<i>T-Bills + 4.00%</i>	<i>5%</i>
<i>Short-term Investments</i>	<i>ICE BoAML 91-day T-Bill Index</i>	<i>2%</i>
	<i>TRS Policy Index</i>	<i>100%</i>

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 real 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>4</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>4</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." Upon review by the Staff and Consultant, the "offering document" 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.
- 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. The Board may authorize 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 and 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.

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**

Pursuant to 40 ILCS 5/1-113.6, 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' 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.

As a long-term investor, TRS is focused on the performance of its investments now and in the future. Material criteria that integrates this policy into investment decision making will be included in due diligence, investment analysis, and asset and portfolio management. The goal of these factors, as reflected in the Illinois Sustainable Investing Act (30 ILCS 238) is "to maximize anticipated financial returns, minimize project risks, more effectively execute fiduciary duties, and contribute to a more just, accountable and sustainable State of Illinois." [30 ILCS 5/5(b)].

## **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 2023, the objective shall be:

30.0% domestic equities, 17.0% international equities; 16.0% 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 2023 is 22% of the total fund.

In compliance with Public Act 96-0006, 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 Public Act 96-0006, 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 up to \$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>5</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 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.

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<sup>5</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.

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 should 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

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.

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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 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 master trustee cannot file on behalf of the System, Staff will work with litigation counsel to determine the appropriate course of action.

The master trustee will provide the System with its most current class action procedures and will follow such procedures on behalf of the System. The master trustee'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 master trustee's class action system, and preparing and filing a proof of claim and supporting documentation.

Investment Staff will monitor the master trustee'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 custodian'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.