

# TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

*Asset Class: Public Equity (Domestic and International) Small  
and Mid-Capitalization Products*

**External Manager Candidate Profile**  
**October 2, 2009 (POST)**  
**July 13, 2017 (UPDATED)**

## **INTRODUCTION**

The Investment Policy of the Teachers' Retirement System of the State of Illinois (TRS) allows Internal Investment Staff (Staff) and External Investment Consultant RVK, Inc. ("RVK" or "Consultant") to screen the investment manager universe as needed given small/mid cap structure considerations.

## **PROJECT PARAMETERS**

### **1. Manager Style**

The Teachers' Retirement System of the State of Illinois (TRS) seeks small and mid-cap managers to manage portions of the Domestic Equity and International Equity portfolios. The domestic equity search will include investment managers using active stock selection primarily from a universe similar to the Russell 2000, Russell 2500 or Russell Mid Cap indices. The international search will include investment managers using active stock selection primarily from a universe similar to the MSCI EAFE Small Cap or MSCI All Country World x-US Small Cap indices. Core, value, growth, enhanced index and fundamental index styles are all eligible for consideration.

### **2. Manager Type**

Only qualified investment organizations registered under the Investment Advisors Act of 1940 (Registered with the SEC) that are devoted to managing assets for tax exempt accounts will be considered. This includes investment advisors and subsidiaries of banks, brokers, and insurance companies.

### **3. Minority Investment Managers**

Candidates meeting the definition of "minority investment manager" as defined by Illinois State law<sup>1</sup> and meeting the screening criteria set forth in this Candidate Profile shall be identified in the screening process as eligible minority managers. If any eligible minority managers are identified, the most qualified minority manager candidate shall be invited to present to the Investment Committee of the TRS Board of Trustees.

### **4. Amount to Be Allocated**

The potential mandate size will be based on conviction and fit. A mandate is typically 2.0% to 4.0% of the respective portfolio.

## **SELECTION PROCESS**

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<sup>1</sup> 40 ILCS 5/1-109.1(9)

## **5. Identification of Candidates**

RVK, TRS's investment consultant, will identify appropriate candidates based on product information submitted to the eVestment database by investment managers wishing to be considered to the assignment.

Current data must be included in eVestment prior to TRS screening. Make sure that any product you submit is fully updated in the eVestment system with previous quarter data. It is critical that all data fields are completed. This includes, but is not limited to: investment return series, characteristic data, description of methodology, firm data, and product assets under management breakdown. If your firm does not already submit data to the eVestment database, you can sign up for participation on their website at: [www.evestment.com](http://www.evestment.com). There is no charge for supplying data to eVestment.

Please direct any questions to [trsi.smidcap@rvkinc.com](mailto:trsi.smidcap@rvkinc.com) or contact the Equity Research Team at RVK at (503)221-4200.

Newer products not yet meeting the minimum asset, experience, or track record criteria specified below are encouraged to apply through the TRS Emerging Manager Program. Information is available at <https://www.trsil.org/investments/how-to-participate>

## **6. Selection of Semi-finalist Candidates**

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

## **7. Selection of Finalists**

Consultant and staff will interview the semi-finalist candidates and select a group of finalists. Onsite due diligence may be pursued for finalists. Staff may present finalist(s) to the Investment Committee of the Board of Trustees at a future board meeting in Springfield, Illinois. By TRS policy, all contracts and fee negotiations must be completed prior to any presentation to the Board of Trustees.

## **SELECTION CRITERIA**

### **Business and Organizational Factors**

#### **8. Total Asset Requirement**

Preferably, candidate firms must have at least \$500 million in total assets under management and at least \$200 million combined in small and midcap products managed by a substantially similar investment team.

#### **9. Investment Professional Experience**

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

#### **10. Stability of Professional Staff**

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

### **11. Geographic Location**

TRS does not have particular specifications with regard to geographic location, but wishes to build a solid, long-term relationship with the manager. Periodic manager presentations at TRS headquarters in Springfield, IL will be required. This would include presentations by finalist candidates, annual reviews and special staff requests. The managers must be able to conveniently meet TRS servicing requirements.

### **12. Involvement with Other Business**

The focus of the organization should be institutional money management. Involvement with other businesses will be judged on its individual merits and any conflicts of interest will be avoided. No placement, broker, solicitors, or any third-party intermediary “finder fees” will be allowed or payable under any circumstances in connection with the selection of managers to manage TRS assets.

### **13. Financial Well-Being of Firm**

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

Professional liability insurance is required. The ADVs of candidate firms will be reviewed for any past or current securities litigation, securities law violations or SEC censure. Any such issues will be subject to further questions and clarification by the TRS staff.

### **14. Long Range Plan**

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

## **Investment Process Factors**

### **15. Investment Style**

Candidate firms must have a small or mid cap oriented investment philosophy and strategy that has been clearly articulated and consistently applied over time. Clearly defined buy and sell disciplines are particularly important. Portfolios should be well diversified with specific limits on concentration of individual securities and industries. This portfolio will serve as a complement to other TRS small or mid cap assignments.

### **16. Investment Research**

TRS has a preference for managers that conduct internal research. The research may be either qualitative or quantitative in nature.

## **Performance Factors**

### **17. Minimum Performance Record**

Candidates should have a three-year track record of managing small or mid cap equity portfolios.

If the track record is shorter than three years, the principal managers must have a successful record of managing similar portfolios for five years prior to the inception of the product under consideration.

### **18. Performance Preferred Attributes**

Performance evaluation will focus on outperformance consistency relative to appropriate indexes and peer groups over longer periods. Consideration will be given to risk-adjusted measures, such as Sharpe and Information Ratios. Style and correlation with existing TRS managers will also be reviewed.

### **19. Performance Comparisons**

Performance of the selected manager will be evaluated relative to a regional and style appropriate index and a peer group provided by the consultant.

## **Client Service Factors**

### **20. Client Communications and Rapport**

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

## **Other Factors**

### **21. Fees**

TRS will request fee proposals from all finalist candidates. Fee proposals will be evaluated relative to industry and TRS norms and minimized to the extent possible. Most favored nation status is required. Asset based fees are typical for TRS public equity products, but performance-based fee structures will also be considered if it is advantageous to TRS.

### **22. Compliance with Illinois State Law and Sudan, Iran, and Israel Restrictions**

Firms must comply with all applicable requirements of the Illinois Pension Code, 40 ILCS 5/1, and 40 ILCS 5/16-179; and any other applicable requirements under the laws of the State of Illinois, including, without limitation, investment restrictions pertaining to Sudan, Iran, and Israel.

### **23. Manager Guidelines and Investment Management Agreement**

Managers will be required to conform to all applicable TRS manager guidelines and sign the Investment Management Agreement (“IMA”). A sample IMA will be provided to semi-finalist candidates. The successful firm must be willing and able to execute an agreement in the form of the sample IMA. Certain provisions mandated by the State of Illinois to be included in contracts with agencies of the State of Illinois are never subject to negotiation. Only Appendices B (Investment Parameters) and C (Fee Schedule) of the IMA are negotiable. Commingled funds, including offshore accounts will be considered, in which the TRS IMA will not apply. Fund structures under LPA or 3-c7 structure are still subject to Illinois law.

## **QUESTIONS**

Please direct any questions to [trsi.smidcap@rvkinc.com](mailto:trsi.smidcap@rvkinc.com) or contact the Equity Research Team

at RVK at (503)221-4200. All State of Illinois and TRS ethics policies apply.