

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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

External Manager Candidate Profile
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INTRODUCTION

The Investment Policy of the Teachers' Retirement System of the State of Illinois (TRS) requires Internal Investment Staff (Staff) to continuously monitor the investment manager universe for attractive small and mid-cap public equity candidates. Additionally, the policy requires Staff and the External Investment Consultant (RVK, Inc. ("RVK"), Consultant) to formally screen the full manager universe on a semi-annual basis (at the end of each fiscal and calendar year). See section 6, Identification of Candidates, for periodic deadlines.

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. Emerging Investment Managers

Candidates meeting the definition of "emerging investment manager" as defined by Illinois State law¹ and to any other younger, growing investment firm with smaller asset bases and developing track records meeting the screening criteria set forth in this Candidate Profile shall be identified in the screening process as eligible emerging managers. If any eligible emerging managers are identified, the most qualified candidate shall be invited to present to the Investment Committee of the TRS Board of Trustees.

¹ 40 ILCS 5/1-109.1(4)

4. Amount to Be Allocated

The potential mandate size will be based on conviction and fit, but would typically be allocated at 1%-3% of the respective portfolio corresponding to an initial investment of \$100 million to \$200 million.

SELECTION PROCESS

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. The database will be screened within seven days following February 15 and August 15 each year.

Current data must be supplied to eVestment by the deadlines noted above. Please notify RVK when you have completed all data entry by sending an email to trsi.smidcap@rvkuhns.com. List the name of your firm and product you would like considered, as well as current contact information. 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. There is no charge for supplying data to eVestment.

Please direct any questions to trsi.smidcap@rvkuhns.com or contact Matt Sturdivan 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 Minority Manager Program. Information is available at <http://trs.illinois.gov/investments/participate/emergingManagers.htm>.

6. Selection of Semi-finalist Candidates

RVK (consultant) and TRS investment staff (staff) will evaluate organizational, strategy, process and performance factors of initial candidates based on database submissions and will identify (any) managers worthy of further evaluation. These managers will be asked to submit a Request for Information (RFI) to facilitate further in-depth analysis by consultant and staff. Semi-finalists will be selected from the RFI submissions.

7. Selection of Finalists

Consultant and staff will interview the semi-finalist candidate(s) and identify (any) managers (finalists) to be invited to make a presentation to the Investment Committee of the Board of

Trustees at a future Board meeting. 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. Assets Under Management

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. Years 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. Experience and Stability of Professional Staff

It is essential that candidates exhibit organizational stability and have compensation and ownership programs that provide reasonable assurance of their ability to retain key investment professionals. Key members of the portfolio management 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 to 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 Screening Criteria

Performance screening will focus on consistency of returns relative to appropriate indexes and peer groups over extended periods of time. Consideration will be given to risk-adjusted measures, such as Sharpe and Information Ratios. Additionally, style (core, value or growth) and correlation with existing TRS managers will be evaluated.

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 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, Illinois state law prohibiting investments in Sudan and Iran to the extent applicable.

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.

QUESTIONS

Please direct any questions to trsi.smidcap@rvkuhns.com or contact Matt Sturdivan at (503)221-4200. All State of Illinois and TRS ethics policies apply.