

**THE TEACHERS' RETIREMENT SYSTEM
OF OKLAHOMA**

REQUEST FOR PROPOSALS
#715-17-1004

INDEX FUND(S) INVESTMENT MANAGER SERVICES

The Board of Trustees of the Teachers' Retirement System of Oklahoma (TRS) is considering the selection of an Investment Manager(s) for an Index Fund(s) portfolio for TRS. Enclosed is the Request for Proposal document, which includes the Proposal Cover Sheet.

This Request for Proposal is comprised of six (6) sections, and twelve (12) pages total, as follows:

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If you would like to receive a copy of this Request for Proposal through e-mail, please send your request to: Melissa.Kempkes@trs.ok.gov. All responses to this RFP must be submitted in accordance with the instructions contained in the RFP. **Electronic responses to this RFP will not be considered.**

**REQUEST FOR PROPOSALS
INDEX FUND(S)
INVESTMENT MANAGER SERVICES**

**II. MANDATORY REQUIREMENTS FOR SUBMITTING A PROPOSAL
(PLEASE READ CAREFULLY)**

- A. Proposals must be received by the deadline at the following address:

**Teachers' Retirement System of Oklahoma (Original plus three additional copies)
Index Fund(s) Investment Manager Services Proposal
Attn: Melissa Kempkes
2500 N. Lincoln Blvd., 5th Floor
Oklahoma City, Oklahoma 73105**

Two copies should also be sent to the following address:

**AndCo Consulting – (Two copies of all materials)
Index Fund(s) Investment Manager Services Proposal
Attn: Douglas Anderson
320 S Boston Ave #2200
Tulsa, OK 74103**

- B. The deadline for receipt of complete proposals is 4:30 p.m., on Tuesday, June 6, 2017. Proposals submitted to the incorrect address or location or received after this date will be rejected and will not be considered.
- C. The original proposal must contain the Proposal Cover Sheet, fully completed, signed and notarized. The Original Proposal Affidavit must be clearly marked "ORIGINAL". The Original Proposal, the Proposal Cover Sheet and the required copies must be submitted together in one completely sealed package, box or envelope.
- D. In submitting this proposal, the Vendor must agree to an audit which provides that books, records, documents, accounting procedures, practices or any other items of the service provider relevant to the proposal are subject to examination by the System and the Oklahoma State Auditor and Inspector.
- E. In an effort to clarify any issues in this Request for Proposal, the System will respond only to questions that are presented in writing via email. These questions and answers to the questions will be consolidated into a single Q&A document. This document will be distributed to potential vendors upon request. Questions do not have to be presented in order to receive the completed Q&A document. All questions and requests for the Q&A document should be sent to Melissa Kempkes, Investment Analyst, at the email address Melissa.Kempkes@trs.ok.gov.

All questions must be received by the System by 4:30 p.m. on Wednesday, May 24, 2017. The Q&A document will be sent by the System on or after Wednesday, May 31, 2017, to those who have requested it. It will also be placed on the TRS website.

- F.** It is the responsibility of the Vendor to ensure compliance with all requirements and deadlines. Proposals which are not in compliance with each and every requirement contained in this Section will be rejected.
- G.** The Vendor shall submit to TRS and to AndCo (*see A. above*) an original plus five (5) additional copies of its response including the same number of any supplemental materials and disks. The original shall be clearly marked "ORIGINAL." In addition, an electronic version of the proposal must be included with the hard copy proposals in Word format, or a .pdf format that has "word search" or "Find" functionality. The document may be submitted on a flash drive or on a CD.
- H.** All costs of preparation and presentation associated with your response to this RFP will be the responsibility of the Vendor. Vendors may be asked to make a presentation before the Board if selected as a finalist. None of the costs associated with this presentation will be reimbursed by the System.
- I.** The selection of investment managers for the state retirement systems is specifically exempt from the competitive bidding procedures established by Oklahoma Statutes. The Board of Trustees of TRS reserves the right to request additional information from any vendor and to accept or reject any proposal without specifying the reason for its actions. The Board reserves the right to request additional proposals. Further, the Board specifically reserves the right to renegotiate for lower fees at any time with any vendor.
- J.** The Board also reserves the right to award all, part, or none of this contract. The Board reserves the right to award contracts to more than one (1) investment manager if deemed appropriate and desirable.
- K.** The Vendor shall be bound by the information and representations contained in any proposal submitted. Said proposal is deemed to be a binding offer on the part of the Vendor. Vendor agrees that Oklahoma law will govern.
- L.** The System prohibits the payment of a finders fee in any form. The Vendor must certify that no finder's fee or finder's commission has been paid or shall be paid to any individual or organization from the establishment of this investment relationship with the System.
- M.** All Vendors must:
- 1.** Acknowledge and agree to be a fiduciary to the plan pursuant to Section 17-106.2 of Title 70 of the Oklahoma Statutes.
 - 2.** Agree that any resulting investment manager contract and services will be subject to and interpreted by Oklahoma law.
 - 3.** Agree that this RFP and the Vendor's response will be incorporated by reference to any resulting investment manager agreement.
- N.** Blackout Period

TRS policy prohibits direct contact between prospective service providers and TRS Board members, consultants, or staff during this RFP process. This does not include communication

with any of TRS' incumbent service providers for normal business not related to this selection process. From the date of release of this RFP until a Vendor is selected and a contract is executed and approved, all contacts and communications regarding this RFP are restricted to the Q&A process. Exceptions include communications with TRS staff during negotiations, presentations, and contract award and execution. Violation of these conditions may result in rejection of a Vendor's proposal.

III. BACKGROUND INFORMATION

A. Legal Authorization

The Board of Trustees of the Teachers' Retirement System of Oklahoma (TRS) is charged with the investment of approximately \$15 billion in retirement funds for TRS. The TRS investment authorization (statutory provisions generally related to portfolio composition and the types of investments which the Systems could utilize) is set forth in 70 O.S. Sections 17-106.1.

B. Board Composition

TRS is governed by a Board of Trustees composed of 14 members including the State Superintendent of Public Instruction, the Director of the Office of Management and Enterprise Services, the Director of the State Department of Career Technology, six members appointed by the Governor, two members appointed by the Speaker of the House of Representatives, two members appointed by the President Pro Tempore of the State Senate, and a nonvoting member appointed by a statewide association that represents retired members of the System.

C. Support Services

TRS has an authorized staff of 40 employees. In addition to the Executive Director, the Board employs in-house a General Counsel. The Chief Investment Officer is responsible for investment policy, analysis, and manager search issues. The Chief Financial Officer and the Finance Division are responsible for investment accounting and financial reporting. Reports on transactions and investment developments are presented to the Board of Trustees at their scheduled meetings.

D. Allocation of Assets

The most current asset allocation mix and target mix as adopted by the Board are as follows:

Asset Class	Benchmark	Current	Target
U.S. Equities	Russell 3000	41.2%	38.5%
International Equities	MSCI ACWI ex.US IMI	16.6%	19.0%
Fixed Income	Barclays U.S. Universal	22.6%	23.5%
Real Estate	NCREIF Property	7.3%	9.0%
Master Limited Partnerships	Alerian MLP	6.5%	5.0%
Private Equity	Russell 2000+4%	5.3%	5.0%
Cash		0.4%	0%

E. Mandate Description

The System is seeking to retain an investment management firm capable of managing a full array of index products across various asset classes and weighting schemes. The retained firm will be the System's index management service provider for both short term temporary mandates to retain asset class exposure as well as for long term strategic mandates. All index investments will be held in separate accounts at the System's custodian, currently Northern Trust. The System does not desire to use comingled vehicle index investments except in limited circumstances where it is clearly advantageous or a necessity.

Listed below are both the existing index mandates as well, and most importantly, the planned index mandates to be put in place subsequent to the retention of an index services provider.

Current Index mandates:

Index	Type	\$MM*	Asset Class	% of Fund	% of Asset Class
S&P 500	Capitalization Weighted	836	US Equity	5.6	13.6
S&P 500	Equal Weighted	210	US Equity	1.4	3.4

Planned Index mandates:

Index	Type	\$MM*	Asset Class	% of Fund	% of Asset Class
50% Russell 1000/ 50% Russell 2500	Capitalization Weighted	575	US Equity	3.85	10
Diversified Factor**	Non Cap Weighted	575	US Equity	3.85	10

*as of April 2017

**The System will be implementing a diversified factor index for the US Equity asset class. The US Equity diversified factor indices under consideration are the MSCI Factor Mix A Series, ERI Scientific Beta Multi-Beta Multi-Strategy indices and the FTSE Russell Comprehensive Factor Indexes. For these index families the universe of securities is to be comparable to the S&P 500 or Russell 1000 since the System intends initially to maintain active management in its small cap US equity exposure. For bidding instructions see below Section IV. E. Fees.

In addition to the planned index mandates above, the System is considering the possibility of implementing a liquidity portfolio for the funding of periodic capital calls. This liquidity portfolio would be intended to match, to the extent feasible, the System's target allocation shown in III. D. above. For bidding instructions see below Section IV. E. Fees.

IV. MINIMUM CRITERIA, QUALIFICATIONS AND PREFERRED CHARACTERISTICS OF THE INVESTMENT MANAGEMENT FIRM

A. Minimum Criteria to be considered as a Manager for the mandate stated above are as follows:

1. The firm must be registered as an investment adviser under the Investment Advisers Act of 1940, or provide proof of bank exemption.
2. The firm managing the Product must have a minimum of \$10,000,000,000 of assets under management in passive equity products as of December 31, 2016.
3. The firm must have a minimum of five (5) years of experience managing Russell U.S. index passive equity products.
4. The firm must currently offer or be able to offer the Diversified Factor index products listed in the planned index mandates section above.
5. The firm must have the ability to manage the mandates in separately managed accounts.

B. Further conditions to be considered as a Manager for the mandate stated above are as follows:

1. The Index Fund(s) Investment Manager (“the Vendor”) shall answer, to the best of its abilities, all questions to Section VI, Questionnaire.
2. The Vendor must fully disclose any proposed subcontracting of any of the required services. Further, the vendor must negotiate and obtain from the index provider the licensing agreements for the benchmarks and directly pay the licensing fees. The System expects a Manager to negotiate the licensing cost and obtain a fee reflective of the committed and potential assets under management for this mandate. It is expected that the Manager will bear those costs without direct pass through to the System.

C. Preferred Characteristics to be to be considered as a Manager for the mandate stated above are as follows:

1. Vendors should have substantial experience managing index assets as described in this RFP.
2. Multiple passive products should be available across various asset classes. Vendors should have the capability to replicate the following capitalization-weighted indices: Russell 1000, 2500, 2000, 3000 & Mid Cap in either core value or growth style variants; MSCI WorldxUS, ACWIxUS and Emerging Market in variants according to both size and style; Barclays Aggregate, Universal and Treasury in variants according to duration.
3. Vendors should have the capability to replicate the following non-capitalization weighted indices; MSCI Factor Mix A Series in variants according to geographic focus, ERI Scientific Beta Multi-Beta Multi-Strategy indices in variants according to geographic and strategy focus and FTSE Russell Comprehensive Factor Indexes.
4. Vendors should offer competitive relationship pricing. The fee quotes set forth in the response to the RFP will be a significant factor in determining semi-finalists for further consideration.

V. PERIOD OF CONTRACT

It is anticipated that the initial contract shall be for a one-year period commencing on July 1, 2017, through June 30, 2018. Thereafter, the contract may be renewed by the Board annually. The Board of Trustees reserves the right to terminate the contract upon 30 days notice, with or without cause.

The process of evaluating the proposals and conducting any subsequent interviews may extend two to three months following the proposal deadline. All vendors who have submitted a proposal will be notified of the Board’s decision in writing after the final selection has been made. This notice of final selection may be the only communication between the System and the Vendors. Telephone or other inquiries concerning this proposal after the proposal deadline are discouraged.

VI. QUESTIONNAIRE

A. Organization

1. Please list your firm's name, address, and year founded, as well as the name, title, telephone and facsimile numbers for the individual(s) responsible for new business contacts.
2. Describe the history, structure and current business plan of your firm.
3. Please discuss the financial condition of your firm based on the most recently audited financial statements and annual report.
4. Provide an organizational chart for your firm.
5. Has your firm undergone any restructuring or had any major organizational changes during the past five years? Do you anticipate any ownership or organizational changes during the next two years? If so, please explain.
6. Please describe your succession plans for the management of the firm and the continuity of leadership within the investment product teams.
7. Over the past three years, has your organization, affiliates, parent company, officers or principals been involved in litigation, legal proceedings, or SEC investigations related to your firm's investment activities? If so, please provide a brief explanation including the current status and/or the resolution of this action.
8. Describe the compensation/incentive structure for both Analysts and Portfolio Managers within your firm.

B. Passive Investing

1. Does your firm manage a full complement of passive equity and fixed income index products? Please provide a full listing of these products including most recent \$AUM, inception date and since inception realized tracking error gross and net of fees.
2. Does your firm manage any factor/smart beta index products from MSCI, ERI Scientific Beta or FTSE Russell? Please provide a full listing of these products including most recent \$AUM and inception date and since inception realized tracking error gross and net of fees.

C. US Equity Index Products

1. For each of the last fiscal five years, provide the following information regarding the firm's domestic equity index investment professionals (*i.e.*, those individuals involved in portfolio management and/or research): (a) number at fiscal year-end, (b) number joining the firm during the fiscal year, and (c) number that left during the fiscal year. Provide the roles of these individuals as well.

YEAR ENDING	KEY INVESTMENT PROFESSIONALS JOINED	KEY INVESTMENT PROFESSIONALS LEFT	TOTAL U.S. EQUITY INDEX INVESTMENT PROFESSIONALS
2012			
2013			
2014			
2015			
2016			

2. Who are the investment professionals managing the firm’s domestic equity index portfolios (*i.e.*, those individuals involved in portfolio management and/or research)? Please include complete biographies for these professionals.
3. Please designate the team members who would be responsible for TRS’ portfolio(s). How much time do these individuals allocate among portfolio management, research, client servicing, traveling and administrative duties? Discuss these individuals’ account responsibilities, specifically the number of accounts managed, location and dollar value of assets under management.
4. What is the current and expected account load (# of accounts) of your portfolio managers and how are accounts assigned to each portfolio manager at your firm?
5. Describe the firm’s portfolio construction strategy for passively managed Russell index products. Include detail on the following: full replication or stratified sampling, rebalancing, dividend reinvestment, use of futures, and any other aspects of the strategy not listed that you feel are relevant.
6. What are the expected monthly tracking errors for a passively managed Russell 1000 and Russell 2500 portfolios? Provide monthly returns for these portfolios for the last five years. Compare the returns of the index products against the monthly performance of the indices. Please account for the sources of tracking error (*i.e.* weighting mismatch, trading costs, fees, etc.)
7. Discuss your approach to managing a combination of indexes. For example, if a client wanted to achieve the returns of a 50% Russell 1000 /50% Russell 2500 combination how would you advise the client? Would you recommend two (2) separate accounts where the client performs periodic rebalancing or would you recommend one (1) separate account where you, as investment manager, maintain the 50/50 mix? Provide your rationale.
8. What are the expected monthly tracking errors for a Russell 1000 Comprehensive Factor Index, an ERI Scientific Beta Multi-Beta Multi-Strategy US equity Index and a MSCI Factor Mix A US Equity Index? Provide actual tracking errors achieved versus these indexes, if available.
9. Discuss your firm’s ability and methods to minimize trading costs. Please describe any unique challenges specific to managing any of the listed factor index products given their individual trading and rebalancing practices.

10. Provide the average commission rate paid for domestic equity trades (cents per share) over the last three years. Please also show the average commission rates for domestic equity large cap trades, mid-cap trades and small cap trades.
11. Please provide five references for clients who employ your firm to manage passive domestic equity accounts. Include a contact name, phone number, and the market value of the assets your firm manages for each reference at inception and currently. Also, provide the name, contact name, and phone number of two past passive domestic equity clients that terminated your firm sometime during the last three years and the dollars managed at the termination date.

D. Index Manager Relationship Products/Assignments

1. Provide a table showing the number of clients where your firm serves as the primary index manager (i.e. where you manage multiple index assignments for a single client), including the type of client, the indexes used, and the \$AUM in each index. For any of these clients please note those for whom you manage a liquidity portfolio for funding capital calls.
2. Please describe your approach to managing customized assignments such as liquidity portfolios. Do you manage such assignments through the relationship manager or do you have specialists for such assignments. Provide a discussion of any client situations requiring customized solutions and how your firm addressed them.
3. Using our target allocation along with the listed benchmark indexes shown in Section III. D. Asset Allocation, describe how you might construct a liquidity portfolio assuming a total value of \$200 million. Which indices would you omit and why? Would you recommend using substitutes for any omitted indexes? If so, please describe.
4. Please designate the team members, in addition to those listed in the previous section, if any, who would be responsible for the broader TRS relationship. How much time do these individuals allocate between portfolio management, research, client servicing, traveling and administrative duties? Discuss these individuals' account responsibilities, specifically the number of accounts managed, location and dollar value of assets under management.

E. Fees

1. Please provide relevant fee schedules for the equity structure shown in the planned index mandates table under Section III. E. and listed below.
 - a. Russell 1000 Index
 - b. Russell 2500 Index
 - c. 50% Russell 1000/ 50% Russell 2500 combined Index
 - d. ERI Scientific Beta MBMS US 4 Factor EW Index
 - e. FTSE Russell 1000 Comprehensive Factor Index
 - f. MSCI Factor Mix A US Equity Index
2. Please provide your fee quote for managing a liquidity portfolio as discussed in VI. D. 3. above.
3. Please discuss your approach to relationship pricing recognizing the likely expanding nature of this relationship from growth in initial assignments as well as potential temporary tactical mandates.

F. Additional Information

1. Is your firm a SEC registered advisor or is it exempt from registration? If applicable, please submit a copy of your Form ADV, Parts I and II.
2. On average, how many days after month-end does it take for the firm to reconcile index positions with clients' custodians? When you find pricing differences, what is your procedure for reconciliation?
3. Does the firm carry errors and omissions insurance? If so, what is the level of coverage?
4. Does the firm carry fiduciary liability insurance? Is so, what is the level of coverage?
5. The System currently uses the following benchmarks for managers and composites.

Current Benchmark Indexes

Alerian MLP
Barclays U.S. Universal
Barclays U.S. Treasury
Merrill Lynch High Yield
MSCI ACWI ex US
MSCI ACWI ex US Growth
MSCI ACWI ex US Small Cap
MSCI ACWI ex US Value
MSCI ACWI ex.US IMI
MSCI EAFE ex US Small Cap
MSCI World ex US Small Cap
NCREIF - CEV
NCREIF - ODCE
NCREIF Property
Russell 1000
Russell 1000 Growth
Russell 1000 Value
Russell 2000
Russell 2000 Growth
Russell 2000 Value
Russell 3000
Russell Mid Cap
Russell Mid Cap Growth
Russell Mid Cap Value
S&P 500 Cap Weighted
S&P 500 Equal Weighted