THE TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

INDEX FUND(S) INVESTMENT MANAGER SERVICES RFP #715-17-1004

Questions & Answers

Questions Regarding RFP Deadlines

1. Please confirm the proper Due Date and Time. The RFP states that the due date is Monday, June 6th? June 6th is a Tuesday.
   See answer to Question #2.

2. For the due date of the RFP, is it Monday, June 5th or Tuesday June 6th. The RFP states the due date is Monday June 6th.
   The deadline for receipt of complete proposals is 4:30 p.m., on Tuesday, June 6, 2017.

3. In section 5F can you please advise if there is an intended question or if this data is for informational purposes.
   Yes, Section V. F. is for informational purposes; there is no question in this section.

4. The RFP requests 6 copies of the proposal be sent to two different addresses. Our Form ADV Parts I & II run about 500 pages. Would you accept 1 paper copy sent to each address instead of 6 printed copies?
   Yes, one paper copy of the ADV Parts I & II for each address is sufficient. You may wish to print four pages per each side (front and back) to save paper.

Questions Regarding Objectives

5. What is the investment objective of the Diversified Factor portfolio?
   See answer to Question #7.

6. What is the investment objective of incorporating the diversified factor index within the US equity asset class? Are there any unique investment requirements from the delivered factor index? (e.g. explicit return targets, tracking error bands, diversification limits etc.)
   See answer to Question #7.

7. What is an acceptable Tracking Error for the Diversified Factor portfolio regardless of the benchmark?
   The investment objective of the diversified factor portfolio is to replicate the returns of the chosen published factor index. No specific tracking error tolerances have been established. The index manager will be judged on ability to minimize tracking error relative to the chosen index.

8. Regarding Diversified Factor mandate, will TRSO consider an investment manager's proprietary strategy or are you only interested in factor strategies using the MCSI Factor Mix A Series, ERI Scientific Beta Multi-Strategy and/or the FTSE Russell Comprehensive Factor Indexes at this time?
   See answer to Question #10.

9. If a proprietary strategy is considered, will back-tested data be allowed to support our response?
See answer to Question #10.

10. Would the Teachers' Retirement System consider an Enhanced Equity Index? Our strategy can enhance any index.
This is a search for low cost index management so proprietary active products will not be considered.

11. What is your expectation for the frequency of rebalancing the portfolios?
See answer to Question #12.

12. What would Oklahoma Teachers expectations be around managing the overall allocations? For example, would the manager be expected to rebalance back to the stated benchmark allocation on a monthly basis or would a tolerance variation be set up to be rebalanced when out of the defined tolerance? Any additional information on this process would be appreciated.
For published indexes, it would seem that the rebalancing frequency of the index would determine the rebalancing frequency of the index portfolio. If there are more sophisticated optimized frequencies that reduce costs and tracking error, please describe these in your response to IV. C. 9. of the RFP or under another response as you deem appropriate. For the blended benchmark, while we would be rebalancing the benchmark monthly, we would seek the expertise of the index manager in devising an optimized alternative to minimize both transaction cost and tracking error.

13. Would a manager qualify if they are not able to replicate the Bloomberg Barclays Aggregate?
If an index management firm could not manage a Bloomberg Barclays Aggregate fixed income index, that by itself, would not be a disqualifying factor.

14. MSCI has two standard, off the shelf multi-factor indexes. The first is the one you currently have in the RFP **- MSCI Factor Mix A-Series** which consists of Quality, Value and Min Vol and is constructed using the top down technique. The other off the shelf index is the **MSCI Diversified Multi Factor Index** and this is constructed bottom up with Quality, Value, Momentum, and Size factors. Please let me know which index you intended for the RFP and if you will be making a revision.
The four factor MSCI Diversified Multi Factor Index due to its broader set of factor exposures would be preferred to the less diversified three factor MSCI Factor Mix A-Series. Respondents should, if possible, substitute the MSCI Diversified Multi Factor Index for the MSCI Factor Mix A-Series unless their only experience is with the MSCI Factor Mix A-Series Indices.

<u>Questions Regarding Process</u>

15. Are investment managers/vendors expected to designate a preference for any of the diversified factor index strategies named in the RFP?
See answer to Question #17.

16. What expectations are there of a named index provider in completing/assisting with this RFP? Will there be additional due diligence required?
See answer to Question #17.

17. What is the decision making process to finalize the diversified factor index mandate?
We welcome the perspectives of index managers as to whether or not certain factor indexes present any implementation challenges with respect to turnover, liquidity, etc. Implementation

challenges along with overall costs will help inform our decision as to which factor indexes are best for the System. The index manager respondents should work with index providers to secure expertise in index characteristics along with the most favorable overall costs for the System. Implementation challenges as well as overall costs reflected in responses received will help inform the factor index decision process. The System reserves the right to select one or more factor indexes based upon responses.

18. What is the timing of the planned index mandate funding?
    See answer to Question #19.

19. Will the cap weighted and non-cap weighted index mandates be funded simultaneously?
    We would anticipate that all mandates would be funded in the fall of this year and that more or less simultaneous funding is likely.

<u>Questions Regarding Structure</u>

20. How many accounts will you be funding? Are you planning to fund all three factor exposure indexes? Similarly for the Russell 1000, Russell 2500, and the 50%-50% combined Russell 1000/Russell 2500 portfolio.
    See answer to Question #21.

21. Does the System intend to hire one manager, or multiple managers for this assignment? If one manager, will the successful bidder assume the management of the "Current Index mandates" described in III. E "Mandate Description."
    The most efficient and desirable structure for the System would be one index manager managing three (3) accounts, namely; 1) a diversified factor index portfolio account, 2) a blended 50%-50% combined Russell 1000/Russell 2500 portfolio account and 3) a liquidity portfolio account. Existing index mandates would be transitioned into this optimal structure. Other structures will be considered if this ideal structure is not obtainable.

<u>Questions Regarding Liquidity Portfolio</u>

22. As per question 3 in Section VI.D on page 11 of the RFP document and the last paragraph in Section III.E on page 7 of the RFP document which states "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." Could you please provide more detail regarding the capital calls and what you envisage for the 'liquidity portfolio', namely, please clarify what the objective of the portfolio would be and what composition and structure of the liquidity portfolio you have in mind (for example, using synthetic instruments, money market instruments, etc.) and any applicable investment limits and/or restrictions?
    See answer to Question #26.

23. Would the client prefer to run the liquidity portfolio as an active mandate or as a passive mandate.
    See answer to Question #26.

24. Would we be able to use leverage for the liquidity portfolio?
    See answer to Question #26.

25. For the liquidity portfolio, how often would you anticipate cash flows? Is the target allocation expected to change over time?
See answer to Question #26.

26. With respect to the liquidity portfolio, does the System have a preference for implementation vehicle (i.e. Derivative based versus ETF based)?
The objective for the liquidity portfolio would be to serve as a source of funds for periodic capital calls and perhaps monthly net benefit payments, while generally reflecting the System's strategic asset allocation. Capital distributions as well as rebalancing activities would be potential funding sources for the liquidity portfolio in order to maintain a balance approximating a determined percentage of the total portfolio.
The implementation of a liquidity portfolio is hypothetical and is not a foregone conclusion at this time: however, if a fairly simple and cost effective structure can be achieved, the System is interested in exploring the concept. Simplicity would likely dictate physicals rather than derivative instruments and cost effectiveness would dictate passive management.
The size of the liquidity portfolio may change over time as needs dictate according to experience. An initial assumed amount of $200 million is hypothetical and set so that all respondents can have a base case on which to bid. Capital calls are by nature difficult to predict but along with net benefit payments for a base case you could assume an average of $15 million per month with semi-annual in-flows to replenish the portfolio back to $200 million.

27. Question 2 in Section VI.D on page 11 of the RFP document asks "Do you manage such assignments through the relationship manager or do you have specialists for such assignments." Could you please clarify what you mean by 'relationship manager' and by 'specialists'?
The distinction between relationship manager and specialists in the question is meant to assess whether you have specialists assigned to managing liquidity portfolios for clients or whether managing a liquidity portfolio would be a one-off assignment that, rather than being managed by a specialist team, would be assigned to the generalist team responsible for the overall client relationship.

<u>Questions Regarding Fees</u>

28. With regards to the fees, given the complications of running the 50%Russell 1000 and 50% Russell 2500 index, would the client anticipate a higher fee for this benchmark compared to the individual Russell 1000 and Russell 2500 benchmarks.
Respondents are asked to submit the best value proposition possible within their capabilities. If a respondent finds it more difficult to run a blended mandate, they are free to bid accordingly, however fees will be an important consideration in the selection process.

29. The mandate description states 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." However, in the RFP, section E, question 1 only asks for fees for the planned mandates. Please clarify.
Respondents should state clearly and explicitly their proposed fees for the planned mandates. With respect to potential future strategic or tactical index mandates, respondents should provide a discussion of how they would approach relationship pricing for such potential mandates and, if desired, give hypothetical examples. An understanding of your relationship pricing philosophy is what is sought.

Questions Regarding Legal

30. In agreeing to be a fiduciary to the plan pursuant to Section 17-106.2 of Title 70 of the Oklahoma Statutes, we will be prohibited from engaging in transactions similar to those which are prohibited under Section 406(b) of the Employee Retirement Income Security Act of 1974 ("ERISA"). Do the Oklahoma Statutes provide for exemptions to the transactions that are prohibited by Section 17-106.2 of Title 70 of the Oklahoma Statutes which are similar to the prohibited transaction exemptions under ERISA? To the extent that Oklahoma Statutes contain such exemptions, would OKPERS please identify the relevant statutory exemptions?
    No. There are no exemptions to the standards set forth in the referenced statute.

31. Would OKPERS be open to considering New York or Delaware as an alternative jurisdiction to use for the governing law of the investment management contract? Or is it a legal requirement that OKPERS have their investment management contract governed by their local laws and regulations? We would propose New York or Delaware as an alternative because they each have a fulsome body of case law regarding the U.S. federal securities laws and contracts related to the financial services industry.
    No. Any agreement or contract resulting from this RFP must be governed by Oklahoma law.