



RFP 20-25-03 Multi-Sector Credit Strategies

Questions & Answers

1. Could you please confirm if private credit (asset backed credit in particular) would fall within the scope of the above RFP?

Strategies that contain private credit will not be considered.

2. There is not a single definition of Multi-Sector Credit. Do you have broad investment guidelines for this mandate? For example, are there specific performance objectives (i.e. excess returns, tracking error)? Will there be a traditional or custom benchmark? Do you have a duration profile or range in mind? Is there a desired range of below investment grade exposure over time?

Yes, Multi-Sector Credit can be approached in many ways, so a custom benchmark may be warranted. A custom benchmark will likely be based on the sub-asset classes utilized by the selected manager. Currently, SURS uses a blend of the ICE BofA Global High Yield, the Morningstar/LSTA Leveraged Loan, JPM EMBI Global Diversified, and the Bloomberg Global Agg Corp. indices to provide an example or reference point.

SURS is open to considering the benchmark currently utilized by the manager.

Performance objectives and portfolio characteristics would be consistent with and reasonable outperformance versus agreed upon benchmark.

There is no specific range for duration, tracking error, or below investment grade exposure over time.

SURS will analyze the “off the shelf” existing strategy as it stands with considerations to the firm’s ability to customize.

3. Our firm manages US and Global Credit strategies relative to the Bloomberg US/Global Credit benchmarks with the ability to customize to client specific objectives. The opportunity sets include high yield, EMD and securitized. Below investment grade exposures for our composite have ranged from 0-20% over time. Would these track records be considered in this search?

Yes, the track record provided can be considered for this RFP.

4. Regarding the Multi-Sector Credit RFP would an emerging market debt portfolio with investments across sub-sectors of emerging markets debt such as hard currency, corporate, local currency, and frontier be eligible for participation for this search? Or does there need to be exposure to other sectors outside of emerging markets debt to qualify.

No, a dedicated EMD strategy would not meet the qualifications for this RFP.

5. Would you accept the minimum AUM requirement if we meet it by aggregating our different strategies, which in total represent well over \$1 billion? We are launching a Multi-Asset Credit strategy that uses our existing and established High Yield, Emerging Market Debt, Structured Products and IG strategies that total well over \$1 billion. Would you accept the minimum AUM if we meet the requirement via aggregating our component strategies?

No, the RFP requests an existing strategy with at least \$1B in dedicated assets.

6. Does SURS have a preferred benchmark for this strategy (such as Cash + 2-3%? Barclays Agg? Blended benchmark?)?

A custom benchmark will likely be preferred based on the sub-asset classes utilized by the selected manager. Currently, SURS uses a blend of the ICE BofA Global High Yield, the Morningstar/LSTA Leveraged Loan, JPM EMBI Global Diversified, and the Bloomberg Global Agg Corp. Indices to provide an example or reference point.

SURS is open to considering the benchmark currently utilized by the manager.

7. Is there a preferred minimum or maximum duration for the portfolio?

SURS has not set any specific constraints around duration, but it should be explainable in relation to market conditions and investment processes.

8. If we are currently registered with the Illinois Board of Directors, given other existing Public clients in the state, do we need to reregister or provide any proof of registration?

If your registration with the Illinois Board of Elections is still active, there is no need to re-register. However, you must provide a valid certificate as proof of registration.

9. In the RFP document, there is language that dictates the potential mandate should not have any private credit. Can you please clarify what types of securities would be allowed in a SMA? Would 144as be allowed in addition to private placements? We just want to clarify the definition of privates for the purposes of the mandate.

In regard to 144as, yes. Given the spectrum of liquidity in this space, SURS and consultant would generally define private credit as segments where there is de minimus secondary market and/or the securities are unable to be sold within one month's time, excluding special circumstances.

For an SMA, public market securities generally include High Yield and Investment Grade credit, bank loans, EM Debt, Agency/non-Agency MBS, ABS (including specialty), CMBS, and CLO debt.

10. In Question 98 of the Questionnaire, it states that there is a 5% minimum requirement level of MWDBE brokerage participation for credit strategies. Does that requirement apply to both separate accounts and pooled vehicles?

The requirement applies to separate accounts while pooled vehicles are exempt. Please use question #98 in the RFP to comment on your ability to meet this expectation.

11. Does The State Universities Retirement System have a preference between funding a separately managed account vs. a commingled vehicle?

SURS' general preference is for a separately managed account, but commingled funds will also be considered.

12. Is SURS seeking a strategy that approximates its public credit allocation, allowing overweight to sectors employed?

SURS has not set any specific constraints around sector allocation.

13. Will SURS provide a benchmark, or will you ask the manager to suggest one?

A custom benchmark will likely be preferred based on the sub-asset classes utilized by the selected manager. Currently, SURS uses a blend of the ICE BofA Global High Yield, the Morningstar/LSTA Leveraged Loan, JPM EMBI Global Diversified, and the Bloomberg Global Agg Corp. Indices to provide an example or reference point.

SURS is open to considering the benchmark currently utilized by the manager.

14. Will SURS place minimum and maximum exposure limits on contemplated sectors like high yield and emerging markets?

SURS will not set any specific constraints around sector allocation.

15. If the manager has broad allocation discretion, will the portfolio be expected to target certain risk parameters like volatility, and benchmark relative measures like tracking error and information ratio?

The portfolio will not be expected to target risk parameters. We generally expect a tracking error of 2-5% versus the agreed upon benchmark.

16. For the Multi-Sector Credit RFP, will SURS consider a dedicated U.S. High Yield strategy from a firm that specializes in credit solutions across its platform?

No, this strategy does not satisfy the Statement of Minimum Qualifications.

17. Does the MFN requirement apply regardless of the committed amounts of other investors? In other words, would SURS expect to receive the same terms as another investor with a larger committed amount?

SURS expects to be able to receive "MFN" rights with respect to any arrangement a responder has or enters into with other clients of substantially the same or lesser amount of assets in substantially the same investment strategy.

18. For Question 49, could you clarify what you mean by non-investment risk? Would an investment guideline risk be considered "non-investment?" Or do you mean firm operational risks?

Yes, operational risks.

19. Are we able to propose multiple strategies or portfolio designs under one proposal? If so, any guidance on how you would like us to disclose data?

Yes, please combine strategies into a single RFP and separate files/merge tables where appropriate.

20. For performance measurement, do you have any specific benchmarks in mind or other portfolio objectives to be aware of?

A custom benchmark will likely be preferred based on the sub-asset classes utilized by the selected manager. Currently, SURS uses a blend of the ICE BofA Global High Yield, the Morningstar/LSTA Leveraged Loan, JPM EMBI Global Diversified, and the Bloomberg Global Agg Corp. Indices to provide an example or reference point.

SURS is open to considering the benchmark currently utilized by the manager.

21. Do you have any Alpha, Tracking Error or other risk factor targets or constraints?

The portfolio will not be expected to target risk parameters. We generally expect a tracking error of 2-5% versus the agreed upon benchmark.

22. For the sectors that you mention are in lesser focus, such as bank loans, is this primarily a comment on structural (i.e. in benchmark) sectors vs tactical allocations? Or are you also indicating you may wish to be void those sectors in the final design?

This is a comment on current portfolio exposures and desired exposures from a new manager for complementary purposes. We will not avoid sectors or void in the final design.

23. Are you able to elaborate on the objectives that SURS aims to achieve with this allocation or metrics you'll be focused on in measuring success?

Consistent benchmark relative performance over time.

24. Will SURS consider non-benchmark relative strategies as part of this search?

SURS is willing to consider some small allocation to other sectors, but they would not be in the benchmark. These allocations would be considered active risk decisions based on a to be determined benchmark.

25. Is there a maximum threshold to those sub-sectors that SURS would like to give lesser consideration to (e.g. Bank Loans, Securitized and other) as part of this allocation? For example, if a strategy had a 40% allocation to Bank Loans or Securitized would that exceed SURS's desired exposure for this search.

SURS has not set any specific constraints around sector allocation, so the example would not exceed any desired exposures for this search.

26. Is there a preferred/suggested benchmark for the allocation?

A custom benchmark will likely be preferred based on the sub-asset classes utilized by the selected manager. Currently, SURS uses a blend of the ICE BofA Global High Yield, the Morningstar/LSTA Leveraged Loan, JPM EMBI Global Diversified, and the Bloomberg Global Agg Corp. Indices to provide an example or reference point.

SURS is open to considering the benchmark currently utilized by the manager.

27. Is there a specific risk budget/tracking error target/range in mind for the portfolio?

The portfolio will not be expected to target risk parameters. We generally expect a tracking error of 2-5% versus the agreed upon benchmark.

28. Does the plan have a preferred benchmark for this allocation?

A custom benchmark will likely be preferred based on the sub-asset classes utilized by the selected manager. Currently, SURS uses a blend of the ICE BofA Global High Yield, the Morningstar/LSTA Leveraged Loan, JPM EMBI Global Diversified, and the Bloomberg Global Agg Corp. Indices to provide an example or reference point.

SURS is open to considering the benchmark currently utilized by the manager.

29. We noticed a discrepancy in the document that responder questions are due today by 4:30pm CT in the timeline table. However, on page 8, under the Questions section, the due

date for responder questions is March 5th by 4:30pm CT. Just want to clarify which is the question due date.

The document has been updated to reflect that the due date for responder questions is February 26, and responses to questions will be provided by March 5 at 4:30 p.m.

30. Per question 37c on page 19, could you please clarify if you are referring to a rep account, or a hypothetical model portfolio?

The term “model” refers to a hypothetical portfolio, constructed for optimality through a systematic process. A rep account may deviate from it.

31. Would a strategy that only invests in US Broadly Syndicated Loans, US CLO Debt and Equity tranches, and US HY Bonds be considered for this mandate?

It would be considered if all other minimum qualifications are met.

32. Will a manager be considered for this mandate if they are not currently registered with the IL State Board of Elections, but would register with the IL State Board of Elections should they be awarded this mandate?

Pursuant to 30 ILCS 500/20-160, any business bidding on contracts or whose bids or offers on State contracts exceed \$50,000 annually must electronically register with the Illinois State Board of Elections. This document provides necessary assurance of a firm’s eligibility to participate in our procurement activities.

Bidders are strongly encouraged to register with the Illinois State Board of Elections prior to submitting an RFP response to SURS. All finalists will be required to provide proof of registration before SURS selects the winning bidder(s). Finalists who fail to provide proof of this required registration will be disqualified from further consideration. For assistance or questions, please email Procurement_Officer@surs.org. To register, please visit: Illinois State Board of Elections Registration at <https://berep.elections.il.gov/login.aspx?ReturnUrl=%2f>.

33. Will a manager be considered for this mandate if they do not currently maintain an affirmative action policy (outlined in clause 8.B of Appendix D), but would be willing with work with SURS to implement such a policy should they be awarded this mandate?

Please note that that the requirement is limited to the extent that Illinois law is applicable to the responder. If Illinois law is currently applicable to the responder, SURS would expect the responder to already be complying with Illinois law regarding the procedures and requirements of the Illinois Department of Human Rights' regulations at issue. If responder only becomes subject to Illinois law following the award of the investment mandate, SURS expects the responder to take the timely actions necessary to enable it to make this compliance representation before the contract with SURS would be finalized. If the responder fails to take the necessary actions to comply with the law in question or causes an unreasonable delay in doing so, SURS will rescind the award.

34. What constitutes proof of registration with the Illinois State Board of Elections (page 5)?

You must provide a valid certificate as proof of registration. You may temporarily provide a screenshot of the ISBE site with your Business Registration Details if warranted. Please see question #34 above for more information.

35. What time period should be utilized for Max Drawdown in question #80 (page 24)?

3-year max drawdown, please.

36. We offer two multi-sector credit products, differentiated by their level of investment-grade credit exposure. As both offerings fit the sector outline provided, we would appreciate your guidance on which product would be a better fit for the RFP. One product allocates to investment-grade credit as its core exposure, paired with high-yield bonds, bank loans, emerging-market debt, and securitized debt. The other allocates to the same sectors but focuses on sub-investment grade credit as its core exposure, providing a different risk/return profile.

SURS would be interested in seeing a submission for both as there isn't sufficient information to provide guidance. We encourage you to combine strategies into a single RFP and merge tables/separate files where appropriate.

37. Could you please clarify if you will accept a most favored nation clause that applies to substantially similar investment products?

SURS expects to be able to receive “MFN” rights with respect to any arrangement a responder has or enters into with other clients of substantially the same or lesser amount of assets in substantially the same investment strategy.

40. Could you please clarify that the most favored nation clause applies to investors in substantially similar investment products at a size smaller than IL SURS’ expected \$250 to \$500 million commitment?

SURS expects to be able to receive “MFN” rights with respect to any arrangement a responder has or enters into with other clients of substantially the same or lesser amount of assets in substantially the same investment strategy.

41. Could you please clarify any specific required components of the most favored nation clause?

SURS expects to be able to receive “MFN” rights with respect to any arrangement a responder has or enters into with other clients of substantially the same or lesser amount of assets in substantially the same investment strategy. SURS expects the components of the MFN to include, fees, expenses, and other pricing terms.

42. Could you please specify the mandate’s absolute return target?

SURS has not set any specific target for an absolute return.

43. Could you please specify the mandate’s target net excess return?

SURS has not set any specific target for net excess returns.

44. Could you please confirm if a proposed blended benchmark comprised 1/3rd US High Yield, 1/3rd US Leveraged Loans, and 1/3rd Bloomberg US Agg suffices for this mandate?

Yes.

45. Do you have a suggested portfolio cap on sub-investment grade asset-backed securities?

SURS has not set any specific constraints on these types of securities.

46. Do you have a suggested portfolio cap on asset-backed securities?

SURS has not set any specific constraints on these types of securities.

47. Do you have a suggested portfolio cap on non-rated securities?

SURS has not set any specific constraints on these types of securities.

48. Will WBE firms receive exceptions to any of the minimum requirements other than for AUM, and the established (live) track record of at least five (5) years managing a Multi-Sector Credit Strategy?

a. More specifically, will this search consider and encourage the submission of a proposal for a hedge fund strategy that's open-ended, primarily invests in US and European CLO junior tranches (e.g. equity and mezzanine debt) of 3rd party CLO managers acquired in the secondary, and that uses credit index and currency hedges?

No, this strategy doesn't fit the requirements of the search. Please visit the SURS website at <https://surs.org/diverse-manager-outreach-portal/> and schedule a meeting with the public markets team for further guidance and opportunities outside the scope of this search.

49. How does SURS define private credit investments?

Given the spectrum of liquidity in this space, SURS and consultant would generally define private credit as segments where there is de minimus secondary market and/or the securities are unable to be sold within one month's time, excluding special circumstances.

For an SMA, public markets generally include High Yield and Investment Grade credit, bank loans, EM Debt, Agency/non-Agency MBS, ABS (including specialty), CMBS, and CLO debt.