



ILLINOIS Firefighters' Pension Investment Fund
Responses to Submitted Questions: Core and Core Plus Fixed Income

This document serves as a formal response to the questions submitted through the process established by the Illinois Firefighters' Pension Investment Fund ("FPIF") in its Request for Competitive Proposal ("RFP") for Core and Core Plus Fixed Income. As stated in the RFP, questions concerning the RFP had to be submitted in writing via e-mail to the Procurement Contact by **12:00 PM Central Time on Thursday, July 14, 2022**. Responses to questions properly submitted are consolidated into a single Q & A document as detailed below and posted on FPIF's website on **Monday, July 25, 2022**. The Q & A document does not identify the source of the query.

1. If the firm manages a core strategy with assets under \$2 billion and also manages a separate strategy in a similar style, will FPIF consider the combined strategy assets toward its minimum strategy AUM requirement?
FPIF will only consider total assets invested in the proposed strategy. Assets invested in other strategies will not count toward the \$2 billion strategy minimum.
2. Will any exception be made to the \$5 billion firm AUM and/or the \$2 billion strategy AUM minimums for diverse, emerging, or minority-owned firms?
No.
3. Can FPIF grant any waiver on the \$2 billion strategy AUM minimum? If the proposed strategy has less than \$2 billion in AUM, will FPIF consider it?
No.
4. How many managers does FPIF intend to hire?
FPIF anticipates hiring one core manager and one core plus manager.
5. What is the approximate allocation size that will be awarded to each manager?
FPIF anticipates that each manager will invest 12% of FPIF's total assets. FPIF has approximately \$7.0 billion in total assets and expects to allocate approximately \$840 million to each firm.
6. If a manager is currently certified by another state as MWDBE, will such certification be sufficient or is the manager required to obtain Illinois MWDBE certification?
Certification in Illinois is preferred, though not required.

7. Who is the Fund's custodian?

Northern Trust serves as FPIF's custodian.

8. Does the plan have frequent inflows and outflows that they would be requesting of their managers for this mandate?

FPIF is unable to opine on the frequency of future cash flows at this time. FPIF has annual net cash outflows of approximately -0.5%. FPIF may withdraw assets from the strategies to fund private market commitments. Please reference Chapter 10 of FPIF's Consolidated Rules to view FPIF's Investment Policy.

9. What is the role of core/core plus in the plan's portfolio?

The role of core and core plus fixed income is to provide downside protection, maintain high liquidity, and outperform the Bloomberg U.S. Aggregate Index. Specific tracking error targets are not established. FPIF seeks to take advantage of fundamental credit dislocations, as well as active sector rotation, yield curve management, and controlled interest rate anticipation. FPIF will consider strategies that focus on one or more of the aforementioned factors.

10. Are there any portfolio restrictions to countries or regions such as such as Iran, Sudan, and Northern Ireland? If so, what are they and do you provide your managers with a list of prohibited securities?

No. There are no such restrictions under Illinois law applicable to FPIF.

11. Should the firm submit two separate proposals if two strategies are proposed?

No. One combined document is sufficient. If a response differs between Core and Core Plus strategies, please indicate which portion of the response applies to Core and which portion of the response applies to Core Plus. One Excel datasheet should be submitted for each of the proposed strategies. If two strategies are proposed, then two Excel datasheets should be submitted.

12. With regards to question 65, for what time period should data be provided?

As stated in the question, please provide all data since inception.

13. May the firm provide its total assets under management for the last 10 years instead of since-inception?

No. As stated in question seven, the firm's total assets under management should be provided as of June 30, 2022 and as of December 31st of each year since-inception.

14. Could FPIF provide a list of Police and Fire pension funds to assist with the firm's completion of question number 27?

Yes. A list of Article 3 and Article 4 pension funds has been posted to FPIF's website.

15. Will FPIF consider strategies that invest in CLOs?

Yes.

16. Is the lack of a GIPS compliant track record disqualifying?

Please reference item five of Exhibit C.

17. Will a separate account structure be considered?

Yes. As stated in Section 1.2, FPIF prefers a Separate Account structure.

18. Is the investment size of the mandate expected to be \$850 million (\$7 billion x 12%)?

FPIF anticipates that each manager selected will invest 12% of the fund (\$7 billion x 12% = \$840 million).

19. Will FPIF consider a strategy with a track record of less than five years?

No.

20. Could FPIF please clarify the difference between the \$5 billion firm AUM minimum and the \$2 billion strategy AUM minimum?

The \$5 billion minimum applies to the total assets under management at the firm, including all equity, fixed income, alternatives, and other strategies. The \$2 billion minimum applies only to the strategy proposed for FPIF.

21. If the firm is unable to meet FPIF's 20% minimum brokerage goal due to best execution or other valid reasons, will the firm still be subject to the consequences for non-compliance?

FPIF has established minority brokerage utilization goals in its Diversity Policy. Please reference Section 6-6.4 of FPIF's Consolidated Rules for the minimum goals. FPIF encourages the use of diverse brokerage firms, subject to best execution requirements. Consequences for non-compliance will be determined on a case-by-case basis. Best execution or "valid" reasons for non-compliance will be considered appropriately.

22. With respect to Exhibit A, Certifications and Terms Required by State Law:
- a. Term 6: Please confirm whether broker dealers used to effectuate security transactions under this mandate will be required to be free from EPA violations.
 - b. Term 18(a): Please confirm what “affirmative action” a respondent must comply with in respect to Term 18(a).
 - c. Term 18(b): Please provide and/or confirm the applicable procedures and requirements concerning affirmative action, if any.
- a. **Term 6: To the extent this provision applies, it applies only to the party that is under contract with FPIF (not third-party broker-dealers).**
 - b. **Term 18(a): The specific terms of the policy are not required or specified by statute.**
 - c. **Term 18(b): If the respondent has Illinois-based employees, the Illinois Human Rights Act and regulations issued thereunder apply (regardless of this certification). This certification, which is required by statute, affirms what would be legally true even without the certification.**
23. Does the \$2 billion strategy AUM minimum apply to the Core strategy or the sum total of the Core and Core Plus Strategies?
- The \$2 billion minimum applies to each strategy independently.**
24. If FPIF prefers that Respondents submit a single RFP document, are there any exhibits or attachments that should be completed separately for each strategy? Could you please specifically advise as it relates to Exhibit E – Fee Proposal and Exhibit B – Questionnaire, if the firm should submit a separate for file for each proposed strategy?
- Please provide two Excel datasheets. FPIF does not require duplicate exhibits or attachments. There is no need to complete Exhibit E or Exhibit B twice. One Exhibit E may contain two fee proposals. One Exhibit B may contain responses that pertain to the Core and Core Plus strategies if two strategies are proposed.**
25. In cases where a manager is proposing both a Core and Core Plus strategy, does FPIF require four separate client references for each strategy (eight references total)? Can the same references be used for both Core and Core Plus, given that these mandates can be very similar in nature?
- Please provide four references for each strategy according to the criteria detailed in the RFP. If the firm is proposing two strategies, please indicate if an individual will serve as a reference for both proposed strategies. No more than two individuals should serve as a reference for both strategies.**

26. If the firm is qualified under the Federal Investment Advisers Act of 1940, is the firm also required to be registered under the Illinois Securities Law of 1953?

As provided in Exhibit C, the respondent must be a Registered Investment Advisor under the federal Investment Advisers Act of 1940 or exempt from registration thereunder. The RFP, in and of itself, does not require the respondent to be registered under the Illinois Securities Law. (FPIF is not advising you whether or not registration under the Illinois Securities Law may be required for other reasons, which should be discussed with your own legal counsel.)

27. Would a strategy that invests primarily in private commercial mortgages be appropriate for this mandate?

No.

28. The FPIF Investment Policy Statement references compliance with the Illinois Pension Code (40 ILCS 5 et seq.) and we noticed that under Section 1-113.2 (14) of the Code, the pension is limited to investing in corporate bonds that “must be rated investment grade by one of the two largest rating services at the time of purchase,” and “if subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio within 90 days.” The RFP itself suggest that the core plus strategy may invest in high yield bonds up to 35%. Could FPIF please help us understand how these two provisions can be reconciled?

Section 1-113.2 of the Pension Code does not apply to FPIF. It historically applied to investments directly made by Article 3 and Article 4 funds before their transition to FPIF.

29. Could FPIF provide clarity on FPIF’s internal asset management capabilities?

All assets will be managed externally by FPIF’s retained investment management firms. No assets will be managed internally by the FPIF staff.

30. The RFP states that the core strategy should invest “primarily” in investment grade rated assets. Is “primarily” a defined term? Would it be 90% of assets? 95% of assets?

The term “primarily” is not a defined term. If managers believe that a strategy is appropriately considered “Core” based on factors such as tracking error, weighted average credit rating, eligible sectors, liquidity, etc., FPIF will accept managers’ definition of “Core.” FPIF will appropriately evaluate the characteristics each proposed strategy relative to its investment objectives.

31. For the Core Plus strategy, what “plus” sectors/securities are allowed?

FPIF has not placed a limitation on eligible “plus” sectors.

32. Question 80 asks for granular attribution “by sector or in a format that best represents each strategy’s investment approach.” It then asks for attribution “in a format that shows only security selection, sector rotation, yield curve, and duration.” In our determination, the version of attribution that evaluates only security selection, sector rotation, yield curve, and duration best represents our strategy’s investment approach. Given this determination, is it sufficient to submit only the additional format of attribution for the specified periods, or will this disqualify our submission?

The attribution is an integral part of FPIF’s evaluation process. FPIF seeks to understand how managers have historically added value in specific market segments. Granular attributions preferred. For example, if 100 basis points of excess return is attributable to sector rotation, please demonstrate the portion of the 100 basis points attributable to agencies, ABS, CMBS, MBS, corporates, municipals, TIPS, and/or other sectors utilized in the proposed strategy. Respondents will not be disqualified for providing attribution analyses that accurately and transparently reflect a given investment approach.

33. Could FPIF provide a Word document of the RFP rather than a PDF?

No.

34. Does FPIF consider TIPS a “plus” sector?

No. However, FPIF will evaluate the percent of each strategy invested in off-benchmark securities. A limit on off-benchmark securities has not been established.

35. Is there a preference of how fees are to be represented, i.e. stacked fees with breakpoints or a single fee for each strategy?

FPIF prefers fee structures with breakpoints.

36. Would FPIF consider a commingled trust fund for the Core and Core Plus strategies?

FPIF prefers a separate account structure. Alternate structures may be considered.

37. Could FPIF please clarify what “RFF” means in Section 2.1(E)?

Please interpret “RFF” as “RFP.”

38. Could FPIF please provide an unprotected version of the Excel datasheet so the firm may include its required performance disclaimers?

No. Any firm that responds to the RFP and completes the datasheet has the ability to add an additional tab within the Excel file. An additional tab can be used to add performance disclaimers. Please do not modify the format of the first four tabs within the datasheet in any way.

39. Per section 2.8, Freedom of Information Act, are we able to identify our fee schedule as confidential?

Please refer to Section 7(1)(g) of the Illinois Freedom of Information Act, which exempts trade secrets, commercial information, and financial information that are proprietary, privileged, or confidential and where disclosure would cause competitive harm to the business entity supplying the information. If you are claiming that the fee schedule or other information in your proposal is exempt from disclosure on that basis, or the basis of another exemption in the Act, you must include an explanation of the basis for exemption with your proposal, as further described in Section 2.8.

40. Does FPIF expect to fund the mandates all at once or over a period of time in separate stages?

FPIF intends to fund the mandates all at once.

41. With regards to the chart in question 112, for what time periods does FPIF wish to see data for the Bloomberg U.S. Aggregate Bond Index?

Please provide the benchmark metric for each time period in the chart.

42. What credit rating methodology does FPIF prefer managers use to determine if a bond is considered “high yield”? Split to high, split to low, Bloomberg Index methodology, or something else?

FPIF’s preference is the Bloomberg Index methodology.

43. With regards to question 107, 108, and 109, Should the manager use their proposed effective fee to calculate the net of fee performance calculation?

No. Actual net-of-fee returns should be provided. FPIF may request that managers use their proposed effective fee to calculate net of fee performance at a later stage in the RFP process.

44. For the Core mandate, do FPIF guidelines allow for the purchase of below investment grade bonds? If so, is there a maximum amount allowed both “at time of purchase” and “overall” (allowing for downgrades)?

Strategies with a below investment grade allocation will be considered for the Core mandate; however, guidelines are not currently established.

45. As it relates to the MWDBE Disclosure, our firm only recently started tracking contracts with minority or woman-owned businesses, or a business owned by a person with a disability. Given the limited information, would it suffice to only include new contracts that we enter into from the date we win the mandate and beyond in our annual report?

In your proposal, please provide available information, specifically noting the time period for which it is available. If no information is currently available, please note that.

46. Could FPIF provide a sample IMA?

Yes. The FPIF Board of Trustees approved a Template IMA, which has been posted to FPIF’s website.

47. With regards to question 12, is FPIF looking for all products that have been wound down, liquidated, or merged since inception? Would the last ten years suffice?

Please list all products that apply since the firm’s inception.

48. With regards to question 61, “Please indicate if any portfolio manager, client service professional, sales professional, or other employee has served as a Trustee for any investment fund,” does this refer to being a trustee of investment vehicles such as a mutual fund, or to funds such as public, endowment, and Taft-Hartley funds?

The question does not refer to serving as a trustee of investment vehicles such as mutual funds. It only refers to serving as a trustee to funds such as public, endowment, and Taft-Hartley funds, or other defined benefit and defined contribution plans.

49. With regards to question 96, what is meant by “leverage”?

Leverage refers to borrowed capital invested in the strategy. For example, if an investor provides \$100 and the manager invests an additional \$20 of borrowed capital, the investment would be 20% levered. If leverage exists in another form, please explain in response to question 96.

50. If an answer to a question is already detailed within a previous question, may we note that as such in our answer “Please see our response to question X” or would you like us to repeat the answer? For example, our answer to question 76 related to the investment process may cover questions that follow.

No. As stated in Section 2.2, “Do not respond to any question with a cross-reference to another question (e.g., “see response to [question number]”). Instead, provide complete responses to each question that fully and adequately communicate the response for that particular question.”

51. How does FPIF define “plus sectors”?

A uniform definition does not exist. FPIF primarily considers off-benchmark securities as “plus sectors”. Examples of “plus sectors” can include high yield, bank loans, select emerging market debt, and other opportunistic income sectors.

52. What is the return target for the core and core plus mandates?

FPIF’s objective is to outperform the Bloomberg U.S. Aggregate Index. Neither express tracking error targets, nor absolute return targets, are established.

53. What are the liquidity requirements for the core and core plus mandates?

While a formal requirement does not exist, FPIF primarily expects daily liquidity for both the core and core plus strategies.

54. What is the target volatility for the core and core plus mandates?

Tracking error and/or standard deviation targets have not been established.

55. Will a separate account of pooled vehicle structures be accepted?

Yes.