

Request for Proposal

For

Emerging Market Debt Asset Management



Prepared by

STRS Ohio
275 East Broad Street
Columbus, Ohio 43215

Submission Deadline: December 7, 2018

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1.0 Summary Statement

STRS Ohio is seeking an investment manager(s) to manage an emerging market debt portfolio benchmarked against the Bloomberg Barclays EM USD Aggregate Index.¹

STRS Ohio seeks a manager(s) with a demonstrated track record of investing in emerging market debt and who will complement existing external emerging market debt manager relationships.

STRS Ohio expects the separate account to be in the \$100 million - \$200 million range.

Any questions concerning this RFP may be sent to emproposal@strsoh.org and STRSOhio@callan.com

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2.0 OVERVIEW OF STRS OHIO

STRS Ohio is one of the nation's premier retirement systems, serving 500,000 active, inactive and retired Ohio public educators. STRS Ohio offers a defined benefit plan, defined contribution plan and combined plan. Benefits include service retirement, disability retirement, survivor benefits and health care coverage for benefit recipients and their dependents. General administration and management of the plan is vested in the STRS Ohio Retirement Board established under Chapter 3307 of the Ohio Revised Code.

STRS Ohio had investment assets of \$77.7 billion as of June 30, 2018.

3.0 PROPOSAL GUIDELINES

3.1 Proposal Overview Specifications

This section of the RFP provides specific instructions on the format and content of the proposal. To be considered, proposals shall include all data and information required by this RFP. Noncompliance with the instructions will make fair consideration of offerings difficult and could result in rejection of the proposal without review.

The proposal for STRS Ohio should be clear, coherent, legible, and prepared in sufficient detail for effective evaluation by STRS Ohio.

To be considered for this mandate, you must have submitted quarterly data to Callan's Manager Database by the same deadline as the RFP submission. Data must be current through **September 30, 2018. Firms can submit data at no cost by visiting www.callan.com.**

3.2 Proposal Format and Deadline

RFP responses must be submitted in writing (2 copies) along with an electronic copy.

Physical copies must be mailed to the following address:

State Teachers Retirement System of Ohio
Attn: Ryan Collins, CFA
275 East Broad Street
Columbus, OH 43215-3771

Electronic copies should be sent to the following email addresses:
(please list the mandate in the subject line of the email)

emproposal@strsoh.org

STRSOHio@callan.com

At a minimum, the proposal must address all of the information requested in section 4.0 Proposal Questionnaire. Please address the questions in the order they are asked.

To be considered, proposals must arrive at the STRS Ohio office by 5:00 PM Eastern time on **December 7, 2018**.

4.0 Proposal Questionnaire

4.1 Organization

1. Provide the following firm information:
 - Name
 - Address
 - Telephone number
 - Email Address
 - Website

2. Provide the following information for a contact person at the firm:
 - Name
 - Address
 - Telephone number
 - Email Address

3. Provide a brief history of the firm.

4. Describe the ownership structure.

5. List all of your office locations and dates of inception.

6. What functions are performed at these subsidiaries, branches and locations?

7. Briefly detail each investment strategy managed by your firm and their respective assets under management.

8. Provide a breakdown of your investor base by assets under management by strategy as of latest accounting period close (\$ in millions).

9. Identify the number of firm professionals by category.

10. Describe the firm's corporate governance principles and guidelines.

11. Discuss potential conflicts of interest that may arise among your firm's various individuals and/or any affiliated entities.
 - a. Describe your process for managing such conflicts of interest.

4.2 Management

1. Describe the investment team that will manage the fund. (Please provide resumes)
2. Detail staff resources, including years of experience and primary responsibilities. Provide a team structure chart.
3. Describe all additions to and departures from (including both timing and reasons) the investment team over the last five years. How did the firm respond to the departure? Describe your firm's contingency procedures in the event key investment professionals should leave the firm.
4. Discuss any plans to recruit additional key personnel.
5. Discuss how key decision makers will be made available to STRS Ohio staff.
6. Describe the anticipated time commitment of each of the key investment professionals on the portfolio management team. Provide the approximate percentage of time dedicated by each professional to:
 - a. Generating ideas
 - b. Analysis and due diligence
 - c. Trading
 - d. Monitoring investments
 - e. Administration / other internal activities
 - f. Marketing Efforts
7. Describe other business interests that members of the team may have that require a great deal of time.
8. Describe the culture of your organization.
9. How are your employees motivated and retained?
10. Describe the compensation structure of each investment professional and incentives to staff. What compensation packages are in place to ensure the stability of the investment team?
11. Describe any succession programs for the firm.
12. Discuss the goals and objectives of your firm over the next five years and the corresponding plans for staffing.

4.3 Overview of Investment Philosophy and Strategy

1. Describe the overall investment philosophy.
2. Discuss the overall investment strategy and objectives.
3. Discuss how your investment philosophy drives your portfolio construction and relative returns versus the benchmark.
4. How have the investment philosophy, strategy and objectives changed over time?
5. Please provide an overview of the emerging market debt environment:
 - a. Past, present and expected future conditions of the emerging market debt environment.
 - b. Where do you see the best opportunities going forward?
 - c. How have these opportunities changed in recent years?
6. What differentiates your firm from its competitors?
7. Explain the environment in which your investment strategy is ideal.
8. Explain the environment in which your investment strategy is not ideal.
9. Explain the effect a recessionary environment has on your investment criteria and strategy.
10. Explain the effect of an inflationary or disinflationary environment on your strategy?

4.4 Investment Strategy and Process

1. Provide a detailed description of your investment decision-making process.
 - a. What criteria are used for investment selection?
 - b. How are ideas generated? By whom?
 - c. How does an investment idea get into the portfolio?
 - d. Describe the process for reaching the decision to sell a position?
2. Describe your overall approach to portfolio construction, including policies regarding diversification, concentration and specific risk factors.
3. Are macroeconomic assumptions incorporated in the portfolio management process? If so, how?
4. What role do interest rate and yield curve strategies play in your process? What has the portfolio's duration range been over the past three years relative to the benchmark?
5. Specifically describe your process for country selection in emerging market debt portfolios.
6. Specifically describe your process for sector, company, and security selection in emerging market debt portfolios.
7. Discuss the use of internal ratings, if any.
8. Are there any sectors/countries/maturities/companies that you tend to avoid? Do you have any other portfolio biases you would like to explain?
9. Describe your due diligence process including your fundamental credit research process.
 - a. How has the due diligence process changed over time?
 - b. Discuss the nature and extent of any third party involvement in the due diligence process.
10. If models or quantitative techniques are being used to arrive at investment decisions, what are the factors which would cause an override?
11. Describe how you will monitor portfolio investments.
 - a. Are there specific individuals dedicated to monitoring investments?

- b. Describe the value you attribute to the monitoring of investments.
12. How often do you meet with management of portfolio companies and government officials?
 13. Do you typically use derivatives in the portfolio? If yes, what type of derivatives are used and for what purpose.
 14. Do you typically have local currency emerging market bonds in your emerging market portfolios? If so, how much? Describe your experience managing local currency emerging market bonds. What is your policy on hedging currency exposure?
 15. How is cash utilized in the strategy? What is the maximum amount of cash a portfolio manager may hold in a portfolio? What is the typical range of cash allocation? How long may a portion of the portfolio remain uninvested?
 16. How is issue liquidity considered in the research and portfolio management process?
 17. Provide details on your trading capabilities, including the number of traders, location, and experience.
 18. Discuss the average holding period for investments and portfolio turnover.
 19. Describe your efforts to monitor and control transaction costs.
 20. Please describe your policies and procedures concerning trading and execution, including those relating to (i) how your firm seeks to achieve best execution; (ii) how your firm ensures equitable trading for all clients (i.e., the account of one client is not favored above the account of another) and exceptions to this policy, if any (iii) allocation of trades (e.g. by portfolio manager or automated); and (iv) side-by-side management of hedge funds and other products, if applicable. When answering this question, you may refer to Form ADV Part 2A, if appropriate.
 21. Do you have experience managing emerging market debt portfolios against the Bloomberg Barclays EM USD Aggregate Index? What is your AUM that is managed against this benchmark?
 22. What is the estimated capacity for this strategy and how was the figure derived?

4.5 Investment Performance

1. Provide updated performance data through June 30, 2018 for actively managed emerging market accounts. Please provide trailing one, three, five year and since inception numbers on a gross of fee and net of fee basis. Also provide monthly return time series data versus your primary benchmark with as much history as possible.
2. Have the results been audited? If so, by whom?
3. How do you judge your performance?
4. Which benchmarks do you typically use to judge your performance? Do these benchmarks include all of the securities you would consider investing in? If not, what other securities would be included in the strategy?
5. Please indicate what percentage of the universe is actively covered by the team or firm. How frequently is research updated? How is the universe defined for this strategy?
6. Discuss whether the firm is GIPS® compliant. If so, state whether and for how long the firm has been verified, the name of your verifier, and provide a copy of your most recent verification letter. If not, state why.
7. Describe your performance attribution system and review process. How is it incorporated into the investment process to track success and failure of decisions?
8. Describe your key strategies that were successful in emerging markets during the last five years and provide insight into the impact on your total relative performance.
9. Describe your key strategies that were not successful in emerging markets during the last five years and provide insight into the impact on your total relative performance.
 - a. Will you change your approach to portfolio management going forward as a result?
10. Describe how your style can be expected to add value relative to the following factors. Where does the firm add the most value: (1) duration management, (2) yield curve, (3) country weighting, (4) sector weighting, (5) credit selection, (6) security selection, and (7) currency management?
11. Do you typically run an aggressive (high beta) or conservative (low beta) strategy versus the benchmark? How will your portfolio perform in a bull market? Bear market? In what market will your portfolio be expected to under and outperform?
12. Please explain the portfolio's outperformance (or underperformance) relative to its benchmark historically and explain why any outperformance is sustainable.
13. How much annual alpha do you expect to produce on average over moving three year periods?

14. Project and support your expectations for your average annual returns and variability of returns relative to your benchmark for the next three to five years for emerging market debt.
15. How much tracking error do you typically run relative to your benchmark? Do you have explicit tracking error targets?

4.6 Risk Management

1. Describe the firm's overall risk management policy. (Various Types of Risk)
2. Who is responsible for risk management?
3. Explain how you monitor risk at the position and portfolio levels.
4. What models or other tools do you use for portfolio risk management? Specifically provide names of commercial (proprietary) systems or platforms.
5. Describe how you manage currency risks. Explain your currency hedging policy.
6. What types of risk reports are made available to investors?
7. Describe the formal procedures that have been established for risk reduction with respect to investments. Specifically, explain how a failing investment would be dealt with. Provide examples of prior failed investments.
8. Describe the levels of insurance coverage for fidelity bonds, errors and omissions, and any other fiduciary coverage which your firm carries.
 - a. List the insurance carriers supplying the coverage

4.7 Code of Ethics

1. Confirm that your firm has a written Code of Ethics and whether it addresses conflicts of interest. (Please provide a copy)
2. Confirm that the firm has written policies and procedures with respect to personal securities transactions.
3. Describe the policy and any requirements in place with regard to reporting of personal transactions.

4.8 Legal and Regulatory Compliance

1. What regulatory bodies are responsible for regulating your firm?

2. Is your firm required to register as an investment advisor or the like, and if so with whom are you registered?
3. Do you or your employees have any other regulatory registrations?
4. Do you manage any funds that are registered with a regulatory agency or listed on a recognized exchange?
5. Discuss whether your firm has been audited by the SEC or any other regulatory agency in the last five (5) years. (Ever)
6. Provide a brief description of any past or pending regulatory action, litigation or other legal or regulatory proceedings involving the firm or any registered employees and/or principals as defendants.
7. Discuss whether any of the key individuals of your firm or any of its affiliated entities have ever (i) filed for bankruptcy or (ii) had any judgments entered against them. If so, please describe the circumstances. Also, describe all settlements of legal or regulatory actions involving your firm, the individual principals or any affiliates.
8. Who is responsible for regulatory and compliance functions?
9. Do you have a compliance manual? What issues do you monitor as part of your compliance process?
10. How are compliance violations, if they were to occur, handled within the firm?
11. How does your firm manage non-public information? Does the firm maintain a restricted list?
12. Please provide an updated form ADV.
13. Please provide your most recent audited financial statements.

4.9 Miscellaneous

1. Describe your capabilities to report your portfolio holdings, characteristics, and returns to STRS Ohio on a timely basis. (State specifically when and in what form this information will be communicated daily and after month-end.)
2. Explain the format and frequency of research and market commentary with your existing clients. Feel free to enclose written samples available to existing clients.
3. Provide an updated fee schedule for a separate account, including any performance-based fees for emerging market debt benchmarked to the Bloomberg Barclays EM USD Aggregate Index for an allocation of \$100 million to \$200 million. Describe

any indirect fees, commissions, or other compensation you typically receive in connection with the provision of investment management services.

4. Provide five references with contact names and phone numbers. Include both public and private sector funds.
5. Provide an explanation for the loss of any large clients during the last five years.
6. How long would it take to invest a \$100-200 million portfolio in the manner you invest your typical emerging markets debt strategy?
7. Describe your capability to invest or withdraw periodic allocations of ~\$50 million that will occur over time as we adjust our allocation to the portfolio.
8. The asset manager should provide any other information it believes is relevant to this assignment.

5.0 GENERAL INFORMATION FOR THE ASSET MANAGERS

5.1 Issuing Office

STRS Ohio issues and is the sole point of contact for this RFP. Any questions or concerns regarding the RFP should be routed via e-mail to emproposal@strsoh.org.

5.2 Rejection of Proposals

STRS Ohio reserves the right at any time to reject any and all proposals received as a result of this request and to negotiate separately with any and all competing asset managers.

5.3 Incurring Costs

STRS Ohio is not liable for any cost or expenses incurred by the asset manager in the preparation of its proposal or for attendance at any conference(s) or meeting(s) related to this RFP.

5.4 Request for Proposal is not a contract

This Request for Proposal is neither a contract nor an offer to contract.

5.5 Disclosure of RFP and Proposal Contents

Proposals submitted may be subject to disclosure under Ohio's public records act. If a proposal contains information which is not subject to disclosure under Ohio's public records law, provide a redacted and unredacted copy of your proposal at the time of submission. The redacted proposal should contain specific reasons for each and every redaction including the appropriate references to the Ohio Revised Code. If any redaction is challenged, the asset manager submitting the proposal will be called upon, at their sole expense, to defend the validity of said redaction.

5.6 Modification/Termination of RFP

STRS Ohio reserves the right, in its discretion and without incurring any liability to any asset manager, to modify or terminate this RFP at any time and to accept or reject any proposal for any reason.

5.7 News Releases

News releases pertaining to this RFP and project may not be made without STRS Ohio's prior written approval.

5.8 Response Date/Contact Information

RFP responses must be submitted to STRS Ohio in writing (2 copies) along with **an electronic copy to both STRS Ohio and to Callan** (at the contact addresses provided below). To be considered, proposals must arrive at the STRS Ohio office by 5:00 PM Eastern time on **December 7, 2018**.

Replies should be sent to the following:

Written Response (2 copies):

State Teachers Retirement System of Ohio
Attn: **Ryan Collins, CFA**
275 East Broad Street
Columbus OH 43215-3771

Electronic Response:

emproposal@strsoh.org

STRSOHio@callan.com

5.9 Asset Manager Selection Process

STRS Ohio may hold discussions with some or all of the asset managers to explore further their proposals, the scope and nature of the services they would provide, and the various approaches they may take regarding the project.

The receipt of a copy of this RFP by an asset manager and a submission of a written proposal by the asset manager does not constitute an obligation of STRS Ohio to grant an interview. STRS Ohio reserves the right to reject any and all proposals, without comment, and to waive any informality, irregularity or failure to conform to the instructions contained in this RFP.

The selection decision is the sole responsibility of STRS Ohio and is final. All asset managers who have submitted an RFP will be notified by STRS Ohio.

This will be your only opportunity to respond to this RFP. STRS Ohio reserves the right at any time to reject any and all proposals received as a result of this request, and to negotiate separately with any and all competing respondents.

All proposals, documents, and other materials submitted in response to this RFP will become the property of STRS Ohio and will not be returned to the asset manager. STRS Ohio reserves the right to use any materials or ideas submitted in a proposal without compensation to the asset manager, regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this Request for Proposal, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between STRS Ohio and the selected firm.

Any proposal that does not fall within a competitive range will be excluded from further evaluation. STRS Ohio will identify areas, if any, requiring further clarification. STRS

Ohio will notify responders if it has a question or if any issues exist requiring clarification and firms must then respond in writing within a specified timeframe.

During the evaluation process, STRS Ohio management staff may, at its discretion, request any or all firms to make oral presentations. Such presentations will provide firms with an opportunity to answer questions STRS Ohio management staff may have on their proposal. Not all firms may be asked to make oral presentations. STRS Ohio reserves the right to select a manager(s) on the basis of the written proposals only, and without a finalist presentation.

In evaluating any proposal or making any determination with respect to an asset manager, STRS Ohio shall not be limited to reviewing information provided by the asset manager during the RFP process and may, at STRS Ohio's discretion, consider any information it deems relevant to its evaluation.

STRS Ohio reserves the right, in its discretion and without incurring any liability to any asset manager, to modify or terminate this RFP at any time and to accept or reject any proposal for any reason.