ILLINOIS STATE BOARD OF INVESTMENT
Responses to Submitted Emerging Market Debt RFP's Questions:

This document serves as a formal response to the questions submitted through the process established by the Illinois State Board of Investment ("ISBI" or the "Board"). As stated in the Request for Competitive Proposals ("RFP"), questions concerning the RFP had to be submitted in writing via e-mail to the Search Contact by **3:00 PM, CDT, April 15, 2016**. Responses to questions properly submitted are consolidated into a single Q & A document as detailed below and posted on the Board's website on or about **April 22, 2016**. The Q & A document does not identify the source of the query.

1. **We noticed that the questions in the active emerging markets fixed income product RFP seem to be aimed at managers who will apply for the passive mandates. (Please see Questions #4 and #5 on page 9 of the RFP, as well as the questions under the Investment Philosophy & Strategy and Investment Process & Portfolio Construction sections.)**

   The active management questions were inadvertently excluded from the RFP. Active managers, please respond to the following questions and ignore sections 5 and 6 and the reference to index managers.

V. Investment Philosophy and Strategy

1. Please describe your investment philosophy for the Emerging Markets Debt portfolio.

2. Within your investment discipline, how would you describe your investment style? Why have you gravitated toward this style and why have you chosen to manage money this way?

3. What is the benchmark used for the Emerging Markets Debt portfolio? Does this benchmark include all of the securities you would consider investing in?

4. What differentiates your investment approach from your peers and what gives you an edge versus the firms you compete with? Do you believe that an investment approach that worked in the past may not work in the future and, therefore, that you need to change or modify your investment approach over time?

5. How are macroeconomic assumptions incorporated in the portfolio management process?

6. Are portfolios managed around a duration target? If so, what has the range been over the past five years? Does this target vary depending on forecasts? How far from the target can portfolios move? Describe this process.

7. What role do yield curve strategies play in your fixed income management process?

8. Are sector, industry, and geographic weightings explicitly targeted or are they the result of other strategy decisions?

9. How are assets allocated among rating categories and between investment-grade and below-investment-grade securities? Is there a limit to how much the portfolio will hold in below-investment-grade securities?

10. Are "traditional" private placements purchased, meaning that there is no subsequent registration of the securities? Is there a limit to how much of the portfolio they may comprise?

11. Describe the use of futures or other derivative strategies to manage duration or to achieve other portfolio objectives.

12. Is leverage incorporated in your strategy? If so, explain.

13. How is cash utilized in your strategy? What is the maximum amount of cash a portfolio manager may raise in a portfolio? What is the typical range of cash allocation? How long may a portion of the portfolio remain uninvested?

14. Describe in detail any changes or refinements made to the firm's security selection process over the past five years.

15. What is the firm's policy towards split ratings? Discuss the use of internal ratings, if any.

16. What is your policy on hedging currency exposure? Please detail currency hedging activity, including extent and frequency, over the past five years.

17. What pricing services do you use? Are any securities in the portfolio "hand-priced," meaning that a price other than one provided by the pricing service is used? Please discuss procedures for and frequency of hand-pricing.

18. How many bonds are held in a typical portfolio? How many issuers? What is the maximum holding (at market value) in any one issuer?

19. If a holding exceeds the firm's stated limit, what is the process for paring this holding?

20. Detail how portfolio risks are identified, monitored, and controlled. How are event and default risks controlled?

21. What has been the portfolio's annual turnover rate in each of the past five years?

22. What elements of your strategy have had the greatest influence on returns relative to the benchmark?

23. What areas of the fixed income markets do you find attractive currently? How have you modified portfolios to reflect this bias?

24. Please explain in no more than one page what your competitive advantage is and why your firm should be hired for this mandate.

VI. Investment Process & Portfolio Construction

1. Please describe your investment process for the Emerging Markets Debt strategy.

2. Who is the decision-making body that has final authority for the Emerging Markets Debt strategy? Does it take the form of an investment policy committee, a team of portfolio managers and/or research analysts, or some other form? Who comprises this group?

3. What are the responsibilities of the decision-making body and of individual portfolio managers? What latitude do portfolio managers have to override investment committee and/or research recommendations?

4. If applicable, explain how the portfolio manager works with the analysts. Are the analysts the primary generators of new ideas? Is there give-and-take between the analysts and portfolio managers?

5. How does an analyst establish credibility with a portfolio manager?

6. Describe your research process, including the security universe covered by your research.

7. What do you believe is distinctive about your research process relative to other investment managers and what do you believe distinguishes your research work from others? What do you think your research "edge" is compared to other investors?

8. How are research ideas communicated to portfolio managers?

9. What factors trigger a sell recommendation?

10. How long would it take to invest a $200 million cash allocation to the Emerging Markets Debt strategy?

11. Based on your experiences, have you developed any investment "rules of thumb" in terms of what you look for and what you try to avoid?

12. Do you incorporate ESG (environmental, social, and governance) principles into your research process or the management of portfolios? If so, why do you incorporate them? How are they incorporated and to what degree?

13. Is evaluation of a company's ESG factors a standard part of your research process?

14. Do you engage management and try to influence a company's ESG factors? If so, how often and to what extent?

15. How do you determine the ESG factors you adhere to?

16. Do you subscribe to any external services that provide information on ESG factors?

17. What percentage of your firm assets incorporates ESG principles?

18. How do you ensure compliance with ESG policies in client portfolios?

2. **In response to the RFP search you are conducting for the Illinois State Board of Investment, we would like to clarify if the mandate is for pure local currency, pure hard currency, or a blend? In the "Scope of Services" section, both are listed benchmarks.**

   ISBI is considering all three, pure local, pure hard, and blended currency. When proposing your strategy (ies), please compare to the appropriate corresponding benchmark.

3. **With respect to the Board's Minority and Illinois Brokerage Policy, given the nature of the emerging markets debt mandate, we note that there may be extremely limited opportunities to use MBE and Illinois based brokerage firms while still achieving best execution. Is it the Board's intention to provide managers with a written**

instruction to utilize particular firms? If so, could you provide such a list? If not, does the Board acknowledge that following the Policy would otherwise be subject to the manager's duty to seek best execution?

Please refer to the diversity policy in ISBI's Investment Policy for additional information on ISBI's policy on utilizing MWDBE and Illinois based brokerage firms.

4. **We intend to submit a response for our flagship EMD External strategy (benchmarked to the JPM EMBI Global Diversified) as well as our pure 50/50 EMD strategy (benchmarked to 50% JP Morgan Emerging Markets Bond Index Global Diversified and 50% JP Morgan Government Bond Index-Emerging Markets Global Diversified). Should we submit two separate RFPs for each strategy, or combine both offerings under one submission?**

   Please submit a separate RFP for each strategy.

5. **The benchmark for the proposed mandate states "JPM GBI-EM Global Diversified and/or JPM EMBIG Diversified". We maintain Composites benchmarked against both family of indices (i.e. local currency and hard currency). Are we able to present both Composites with our submission?**

   Please feel free to submit both strategies. However, separate RFPs should be submitted for each proposed strategy.

6. **Our EMD blended product has allocation to corporates of 20% - this is also represented in the benchmark. Would a blended EMD product with an allocation to corporates be considered?**

   Yes, the strategy will be considered.

7. **It states in question #3 in the minimum qualifications that a 65bps fee or below is required. Is this based on an effective fee generated off a tiered schedule or is a flat fee expected? And based on the undetermined total asset allocation ($460m or $230m) is this going to have any sort of impact on the expected/required fee?**

   Fees will be scrutinized closely. ISBI will not be considering proposed fees that result in an effective fee higher than 65 bps on a $460 million mandate.

8. **It states in question #8 in the minimum qualification that directed brokerage is to be expected for this mandate (I believe a 20% is expected for all Fixed Income is stated in the investment policy) – due to Emerging Market Debt being a niche product and our commitment to best execution – is there any exemption allowed with this requirement?**

   Please refer to the answer to question #3.

9. **Would it be acceptable to submit more than one strategy given the flexibility in benchmarks?**

   Yes.

10. **Would the Illinois State Board of Investment accept a benchmark agnostic unconstrained approach?**

    Yes.

11. **What is the optimal target or range of duration expected in the management of this mandate?**

    Duration will be evaluated within the context of the manager's strategy and investment approach. ISBI will likely seek an intermediate term emerging market debt portfolio, consistent with the JPM GBI EM Global Diversified and JPM EMBI Global Diversified indices.

12. **How many investment managers will be selected for this mandate?**

    That is yet to be determined.

13. **For this mandate, would you be open to receiving proposals for a strategy whose 3-year GIPS track record will commence on 6/1/16 for hard currency, 7/1/16 for local currency and 10/1/16 for blend for a team who has an extensive track record dating back to 2006, but experienced a break in performance when transitioning between firms? The aforementioned time frames only account for the team's time at the current organization.**

    No, firm's that cannot satisfy the 3 year minimum requirement as of the date of submission will not be considered.

14. **Are you looking for us to provide comments on the IMA as part of the RFP process?**

    No.

15. **Are you willing to accept certificates of insurance in place of copies of our insurance policies?**

    ISBI is willing to accept certificates of insurance if the certificates of insurance specifically indicate the coverage consistent with the requirements set forth in the RFP.

16. **Section III, Question 5, of the Questionnaire requests "..two client references for your indexing strategies." Are you looking for client references for our actively managed emerging markets fixed income strategy?**

    Yes.

17. **Exhibit B, Items 21, 22, 24, 25, 26, 27, 29, and 31, ask for representation, acknowledgment, and certification of these items as the consultant. As an investment manager, should we adjust all references to Consultant to Investment Manager in these items? We may otherwise not be able to represent, acknowledge, and certify these items as an investment manager.**

Yes, the representations, acknowledgments and certifications listed in Exhibit B are consistent with the requirements of the Illinois Pension Code for both investment managers and investment consultants doing business with ISBI.

18. **Exhibit B, Item 23.e, states that our minimum insurance requirement shall include errors and omissions insurance to "..protect the Account against losses from the negligent acts, errors or omissions of Consultant." Can you please clarify this item as it pertains to an investment manager or should we adjust the wording to "..errors or omissions of Investment Manager."?**

    Please adjust the wording to "errors or omissions of Investment Manager".

19. **Do you have credit quality limits within your investment guidelines**?

    No, ISBI does not currently have credit quality limits in the investment guidelines.

20. **Do you have any specific security type restrictions (i.e., 144a's)?**

    No.

21. **Do you have any countries that are restricted from investment?**

    No.

22. **Do you currently have other global mandates that have required foreign markets to be opened with the custodian?**

    Yes

23. **Are there SRI restrictions?**

    No.

    If so, what are they?

24. **Do you currently use or permit derivatives?**

    Yes, ISBI permits derivatives to all of the below:

    - Futures
    - CDS
    - Swaps
    - Currency Forwards

    If so, do you have ISDAs, futures, options and collateral agreements in place with brokers?

    - **If so, which brokers?**

    Yes, ISBI has had these agreements in place in the past.

25. **Do your state guidelines have any other requirements or limitations that could impact implementation of trading agreements? (e.g. rules around collateralization, limited recourse requirements, etc.)**

    No.

26. **Do you have unique or specific currency requirements?**

    No.

27. **Do you require the portfolio to be hedged back to specific currency?**

    No.

28. **Are there any restrictions on who we can trade with (e.g., custodian only)?**

    No.

29. **What is the account's typical cash flow profile regarding redemptions/subscriptions?**

    ISBI intends to be a long term investor in the Fund, and will only redeem or contribute money for rebalancing purposes unless instructed otherwise by the Board.

30. **Are there specific trade communications requirements such as pre-approval of trades or the use of non-SWIFT trade communications?**

    No.

31. **Are there any provisions in the Investment Policy, Standard Investment Agreement, or Fixed Income Investment Guidelines, that are particularly unique to the plan, as it relates to a Fixed Income portfolio assignment?**

    No.

32. **What are the service requirements for investment reviews?**

    Look at the Investment Policy Statement and refer to section VII. Investment Advisor Performance Review Policy.

33. **You indicate an allocation in each search document of $460 million. Is this the total allocation currently under consideration for EM Fixed income, or will the allocation to active, passive hard currency, and passive local currency each be $460 million?**

    ISBI will be allocating a total of approximately $460 million to emerging market debt. Based on the RFP responses, we will determine how the $460 million mandate is allocated to both passive and active investment strategies.

34. **We are pleased to participate in the Illinois State Board of Investment search for investment management services. After reviewing the RFP request, we would like clarification regarding the historical time period for submission of the portfolio attribution reports and whether the request is for both qualitative and quantitative data.**

ISBI is seeking quantitative portfolio attribution.

35. **Are you at liberty to disclose fees paid by ISBI to Standish Mellon for the Emerging Market Debt mandate?**

    ISBI paid Standish 0.35% (35 bps) on all assets.

36. **Please confirm whether local-market brokers in non-US jurisdictions meet (or should be considered as meeting) the requirements to satisfy the minority- / women-owned brokerage utilization requirement.**

    Please refer to the diversity policy in ISBI's Investment Policy for additional information.

37. **Please confirm whether the expectation / requirement to utilize Illinois-based brokers / dealers for ISBI investments applies to the EM debt mandates under consideration. If so, have ISBI identified one or more acceptable counterparties in this area? We are not aware of any Illinois-based dealer active in the space**.

    Please refer to attached table for list of MWDBE brokers. The onus is on the investment manager to vet the MWDBE brokers.

38. **As you know, we are proposing a separate account per your request for the Passive, Major Emerging Market Fixed Income Request for Competitive Proposal benchmarked to the JP Morgan Emerging Market Bond Index (EMBI) Global Diversified. We do not have a current institutional track record with respect to this strategy; however, we do have an ETF track record which we anticipate will be substantially similar as it will be managed by the same team with the same investment process and philosophy. Will you accept the ETF track record in lieu of an institutional track record?**

    Yes, ISBI will consider the ETF track record.

39. **Your minimum criteria for EMD assets under management is "$1.0billion in emerging market debt strategies". We would like to know if this threshold needs to be met by a single EMD composite or whether we could submit a response with a team that runs a total over $1bn in EMD assets across its customized portfolios and within its $6bn total AUM?**

    The $1 billion minimum does not have to be achieved through a single composite.

40. **Would a Hard Currency only manager be considered?**

    Yes.

41. **Is the $1 bn in EM Debt assets a non-negotiable requirement?**

    Yes.