

**Notice of Search for
Active U.S. Core Fixed Income Investment Managers**

I. INTRODUCTION AND INFORMATION ON THE SEARCH PROCESS

Background: The Pennsylvania State Employees' Retirement System ("SERS" or the "System"), is conducting this investment manager search ("Search") to identify and select investment management firms to create and manage one or more Active U.S. Core Fixed Income portfolios for SERS.

The State Employees' Retirement Board ("Board") has exclusive control of all assets of SERS. The Board has full power to hold, purchase, sell, assign, transfer, or dispose of SERS' assets, including securities and other investments in which its funds have been invested, as well as the proceeds of such investments. The Board's general investment consultant, Callan LLC ("Callan" or "Investment Consultant"), will assist the Board in fulfilling its fiduciary duties with respect to the investment of the assets.

Search Process: SERS' Investment Office ("Staff") is conducting this Search. Specifically, Staff and the Investment Consultant will use Callan's database to identify the universe of Active U.S. Core Fixed Income (benchmarked to the Bloomberg U.S. Aggregate Bond Index) investment management firms that SERS could engage to provide investment management services. The Investment Consultant will review information posted in the database to identify firms that meet the Minimum Requirements described in Section B ("Minimum Requirements"), followed by further evaluation.

How to Participate in this Search: To be considered, investment management firms **must** comply with the requirements (1) – (3) listed below:

- 1) All firms shall carefully review this Notice of Search and the Minimum Requirements described in Section B below. Interested firms that meet the Minimum Requirements must enter their information in the following database to be considered by the Investment Consultant. The Investment Consultant will review the database and provide Staff with a written report identifying the investment managers that meet the Minimum Requirements.

Investment firms **must** submit their information directly to the Investment Consultant. Information on requirements for entering information into the database can be found at: <http://www.callan.com> (click on "Manager Questionnaire" under the "For Investment Managers & Advisors" header).

- 2) All firms **must** ensure that they completely identify their firm and product information in the aforementioned database. Additionally, firms must ensure that the information is current and accurate as of June 30, 2024 (information such as organization, product, personnel, returns, portfolio characteristics and AUM data).
- 3) Current and accurate data **must** be in the aforementioned database **no later than, August 5, 2024**, at which time the Investment Consultant shall commence its review of the database.

Any questions regarding Callan database entry must be posed to pasers@callan.com.

There is no fee for entering information into the aforementioned database. Investment managers are advised that information in the database may become part of any contract that results from this Search.

SERS reserves the right to reject any firm that is determined to have a conflict of interest in connection with the investment management services specified in this Search.

A. SCOPE OF SEARCH

This Search is open to all managers with long-only styles of active management of U.S. Core Fixed Income.

SERS intends to fund its U.S. Core Fixed Income allocation over a period of 12 months with the total allocation up to \$1.2 billion. There may be multiple managers hired to fill this allocation.

All of SERS' current investment managers must participate in this process if they wish to be considered for award of a contract pursuant to this Search. The purpose of this Search is to identify highly qualified investment firms to manage an Active U.S. Core Fixed Income portfolio on behalf of SERS. Managers will be required to execute their strategies consistent with the investment policies and asset allocation of SERS.

The Fixed Income policy benchmark is the Bloomberg U.S. Aggregate Bond Index. The objective of the U.S. Active Core allocation is to add value over the benchmark with limited tracking error. Managers will be expected to articulate their products' alpha and tracking error targets.

Managers are expected to manage portfolios as separate accounts or institutional quality commingled vehicles.

Each selected vendor will provide services as defined in this Search and as set forth in the resultant contract. The portfolios must adhere to the Investment Policy Statement issued by SERS. The Systems' U.S. Core Fixed Income portfolios must be fully invested at all times.

SERS and Callan will review Investment Guidelines and the benchmarks submitted by your firm in conjunction with this Search. Changes to the Investment Guidelines and the use of additional benchmarks may be considered as part of this Search.

By soliciting proposals, the System is not obligated to award any contracts or to allocate assets to any proposer.

B. MINIMUM REQUIREMENTS

Minimum Requirements are set forth below. Firms, strategies and products that do not meet the following Minimum Requirements shall be considered non-responsive and shall be

rejected.

1) Investment Approach

The firm must offer an Active U.S. Core Fixed Income portfolio that can be benchmarked to the following market index:

- Bloomberg U.S. Aggregate Bond Index

2) Assets Under Management

As of June 30, 2024, at a minimum, the investment management firm must:

- a. Have proven ability in managing institutional-sized portfolios, including at least one client (not affiliated with the firm) for whom the firm currently manages **\$25 million** or more in the product under consideration;
- b. Have at least **\$500 million** under management in the product under consideration; and
- c. Have at least **\$1 billion** under management at the firm-wide level.

3) Performance Track Record

As of June 30, 2024, at a minimum, the investment management firm must have a **live three-year track record** managing the proposed Active U.S. Core Fixed Income product. It is preferred that the composite is calculated in accordance with CFA Institute Global Investment Performance Standards (“GIPS”) - required methodologies or other appropriate methodologies. Note that GIPS - required methodologies refer to both the calculation of returns **and** the creation and maintenance of the composite. Only investment management firms that demonstrate a continuous track record for the entire three-year minimum period will be considered. The following track records will be considered non-responsive:

- a. Linked performance of two or more different products, even when they both use a similar approach and the same personnel; and
- b. Back tested or otherwise simulated track records.

Proposers may link track records from two firms if they meet CFA Institute standards for portability and the requirements set forth in Item 4 below. The products offered by the two firms must be substantially the same in style and use a similar benchmark.

4) Linked Performance Track Record

Investment management firms can and will be considered based on the performance record achieved at a predecessor firm by key senior staff of the investment management firm, provided the linked performance record is for a product that exhibits continuity of investment philosophy and portfolio management processes from one firm to the other. Additionally, during the evaluation process, the investment management firm must:

- a. Answer all performance questions regarding the linked track records;
- b. Provide a thorough explanation of the performance composites and linking methodology, including whether or not the composites and linking are consistent with CFA Institute standards, and if not consistent, the reasons for the linked performance track records to be considered; and
- c. Meet all other Minimum Requirements.

5) Regulatory, Ethics and Compliance

The firm must be (i) a registered investment adviser under the Investment Advisors Act of 1940, (ii) a bank, or (iii) if a non-U.S. entity that is not required to be registered under the Investment Advisors Act of 1940, registered with the appropriate local regulatory authority (e.g., Financial Services Authority), as applicable. Although SERS is not subject to ERISA, firms must also agree to perform as a fiduciary to SERS, consistent with ERISA standards.

Selected firms will be required to comply with the SERS' Investment Policy Statement (<https://sers.pa.gov/pdf/Investments/InvestmentPolicyStatement.pdf>).

C. EVALUATION PROCESS

SERS' Investment Staff, working with the Investment Consultant, will evaluate firms that meet the Minimum Requirements. Evaluation will be done as a multi-stage process, as follows:

- 1) The Investment Consultant will review information posted in its database to identify firms that meet the Minimum Requirements.
- 2) The Investment Consultant will then conduct further quantitative and qualitative reviews, using a range of sources. Reviews will initially focus primarily on quantitative factors, such as benchmark fit, consistency of benchmark-relative rolling out-performance and tracking error of the product on a stand-alone basis, as well as manager team analysis regarding programmatic benefits of the product relative to a team of managers. Investment managers with strong quantitative records will also be reviewed on qualitative criteria such as strength of the organization and quality of the investment research and investment decision-making processes. Based on these reviews, the Investment Consultant will provide a written report to SERS with the recommended investment management firms and products and the basis for the recommendations.

- 3) The SERS’ Investment Staff will review the Investment Consultant’s report and the recommended list of investment management firms and products. SERS’ Investment Staff will collaborate with the Investment Consultant to develop a shortlist of investment managers (“**Shortlist**”) for further review. Firms on the Shortlist will be contacted to confirm the firm’s interest in participating in the Search. Investment management firms on the Shortlist will be required to provide fee proposals, Form ADV Parts 1 and 2 (2A & 2B), and other disclosure forms. SERS will rate firms based on additional in-depth review, which may include site visits (virtual or otherwise), a due diligence questionnaire, in-person, online and/or telephone interviews, best and final fee offers, and other relevant information.

Firms may be requested to provide clarifications or additional information regarding their proposal(s) at any time during the evaluation process.

SERS’ Investment Office and Chief Counsel’s Office will negotiate and execute contracts with firms selected by the Board.

D. CONTRACT AWARD

Any contract award shall be made to the responsible Investment Manager(s) whose product is determined to be the most advantageous to SERS, taking into consideration the price and such other factors or criteria that are set forth in this Search.

II. PROJECTED TIMETABLE

The following is the estimated timetable for awarding contracts:

Event	Date
Release Notice of Search:	July 8, 2024
Submission of questions:	As soon as possible; no later than July 22, 2024
Response to questions submitted:	As soon as possible
Deadline to submit information to databases:	August 5, 2024
Evaluation/interviews/selections:	Fall 2024 into 2025
Contract execution and start:	2025

III. AGENCY COMMUNICATION

A. AGENCY CONTACT

Name: Jonathan Ferrar, SERS Portfolio Manager
Phone: 717-712-2119
E-mail: jferrar@pa.gov

SERS shall not be bound by, and firms may not rely on, information regarding this process obtained from any source other than this Search. From the issue date of this Search until firms are selected, all contact with SERS' employees concerning this solicitation must be cleared through the agency contact provided above.

B. QUESTIONS

Questions concerning the solicitation should be submitted in writing to the agency contact provided above by the due date for questions indicated on the project timetable above. Firms should submit questions as soon as they arise after receipt of this Search.

IV. GENERAL SERVICE REQUIREMENTS

A. MEETINGS

SERS' Investment Staff will schedule periodic virtual meetings, phone calls or in person meetings at the office in Harrisburg, PA (quarterly at minimum) to review the portfolio holdings, performance, and organization. In addition, firms may be requested to make presentations to the Board and/or its committees in Harrisburg, PA. The firms should be available for annual on-site visits by SERS and/or the Investment Consultant, as well as discussions with respect to the portfolio at such times as the Staff or Board may require. Costs to attend such meetings are to be borne by the firm at its own expense.

B. REPORTS

Firms will be required to provide monthly, quarterly, and annual portfolio reports as well as such other reports as may be requested by SERS. Reports must be provided within the timeframes specified by SERS. In addition to the portfolio reports, SERS requires an annual audited financial report and SOC reports of the fund. The reports must be submitted by an external CPA firm.

C. CORPORATE ACTIONS

SERS is an active participant in proxy issues for corporate actions which require shareholder proxy voting. For separate accounts, the manager is not responsible for casting votes on proxy issues. However, corporate actions (other than those effectuated via a proxy vote) shall be handled by managers.

D. RESEARCH ASSISTANCE

From time-to-time SERS will conduct various research projects. Research may include, but is not limited to, items such as custodial issues, proxy voting, tax treatment by country, benchmark analysis, etc.

V. GENERAL INFORMATION

A. TIME OF PAYMENTS

Fee payments will be made quarterly in arrears upon submission and review of an invoice based on the daily net asset values of securities at the close of each business day as determined by the System's custodian bank.

B. AMENDMENTS TO THIS NOTICE

Any substantial clarification or change to this Search shall be by written amendment and shall be posted on SERS' and Callan's website.

C. DISCLOSURE

Firms shall disclose publicly available developments that may materially affect its ability to perform the services requested in this Search or to fulfill its obligations under a contract that results from this Search.

D. WORK PRODUCTS

Materials and working papers developed during the engagement will become the property of SERS. All original information and all data files derived from the custody services provided to SERS, if applicable, will be the property of SERS.

E. ALLOCATION PROCEDURES

- 1) The contract will incorporate business terms included in this Search and additional requirements delineated in this solicitation. After all contract requirements have been met, assets (which may be in the form of cash or securities) will be allocated to the firm for investment management.
- 2) A manager shall invest allocated funds within the investment guidelines developed by SERS and the manager at the time funds are allocated to a manager, and as such guidelines may be amended from time-to-time thereafter. Timing of the initial portfolio purchases should be discussed with the SERS Investment Staff at the time of account funding.
- 3) Additions or reductions in assets under management by a firm shall be at the discretion of SERS but shall be timed to minimize the impact on the performance measurement process.
- 4) SERS reserves the right to re-allocate assets assigned to, or withdraw assets from, a firm without fee or penalty.