

ILLINOIS STATE BOARD OF INVESTMENT
Form Request for Competitive Proposal: Proxy Voting Advisor

ISBI must receive proposal by: **October 23, 2009**

Medium for receipt of proposal: **EMAIL**

ISBI Recipient Email: **Linsey.Schoemehl@illinois.gov**

ISBI Analyst: **Linsey Schoemehl**
Investment Compliance Officer

Attachments:

General Information:

The Illinois State Board of Investment (“ISBI” or the “Board”) is a non-appropriated state agency that is responsible for managing and investing the pension assets of the Illinois General Assembly Retirement System, the Judges’ Retirement System of Illinois and the State Employees’ Retirement System of Illinois. ISBI’s net assets totaled \$8 billion as of March 31, 2009. More information regarding ISBI can be found by reviewing its enabling statute at 40 ILCS 5/22A and its website at: <http://www.isbi.illinois.gov>.

All proposals must be received no later than Friday, October 23, 2009 at 3:00 P.M., CST. Respondents must email the proposal and other related documentation to Linsey.Schoemehl@illinois.gov. Any proposal received after the due date and time will not be considered.

All inquiries and requests for information related to this Request for Competitive Proposal (“RFP”) must be submitted in writing via e-mail to Ms. Linsey Schoemehl, Investment Compliance Officer, at Linsey.Schoemehl@illinois.gov no later than Friday, October 16, 2009, 3:00 P.M. CST. ISBI reserves the right to judge whether responses to requests for information should be distributed to all the Respondents who are known to have received a copy of the original RFP.

If it becomes necessary to revise any part of this RFP, or if additional information is necessary for a clarification of provisions within this RFP prior to the due date for proposals, a supplement will be provided to all Respondents. If a supplement is necessary, the Investment Compliance Officer may extend the due date and time of the proposals to accommodate any additional information requirements.

Respondents are advised that proposal materials are subject to the Illinois Freedom of Information Act (5 ILCS 140). After any agreement is awarded and after successful negotiation of such agreement, proposals may be viewed and copied by any member of the public, including news agencies and competitors. Respondents claiming a statutory exception to the Illinois Freedom of Information Act must identify relevant language as confidential, and identify in the email transmission of the proposal whether confidential

information is included. Further, each page of confidential documentation must be labeled as such. The Respondent must also specify which statutory exemption applies. The statutory exemptions can be found at the Illinois General Assembly's website (<http://www.ilga.gov/>).

ISBI reserves the right to make determinations of confidentiality. If ISBI does not agree that the information designated by the Respondent is confidential under one of the disclosure exemptions to the Illinois Freedom of Information Act, it may either reject the proposal or discuss its interpretation of the exemptions with the Respondent. If agreement can be reached, the proposal will be considered. If agreement cannot be reached, ISBI will remove the proposal from consideration.

ISBI is not responsible for any costs incurred by the Respondents in responding to this RFP.

Description of Goal to be achieved through the Request for Competitive Proposal:

ISBI is seeking proposals from qualified organizations to provide general information on: (i) proxy voting guideline development, (ii) socially responsible investment ("SRI") data-feed services, (iii) fees for voting equity securities' proxy ballots using proxy service standard guidelines, (iv) fees for voting equity securities' proxy ballots using proxy service standard guidelines with limited customization, (v) fees for voting equity securities' proxy ballots using ISBI custom guidelines and (vi) fees for comprehensive equity security proxy vote reporting going forward. ISBI reserves the right to contract for all, any part or none of the services requested.

Description of Proxy Advisory Services to be performed:

A. General. The purpose of this RFP is to solicit proposals from one or more qualified organizations to provide proxy voting advisory services and related SRI services. These services include, but are not limited to: (i) proxy voting guideline development and assistance with development of ISBI's proxy voting policy; (ii) proxy research, recommendations and voting services; (iii) proxy vote reporting and (iv) SRI data-feed services. Neither this RFP nor any response (proposal) submitted hereto are to be construed as a legal offer.

B. Specific.

1. Proxy Voting Guideline/Policy Development Services.

i) Propose policy recommendations and work with ISBI to develop a proxy voting strategy that is consistent with its fiduciary responsibilities, which shall be integrated into an ISBI Domestic and International Equity Proxy Voting Policy.

ii) Review and discuss ISBI's existing proxy voting policy and ascertain the appropriateness of the current policy for ISBI in the current corporate governance landscape.

iii) Provide proxy guideline development services and make improvements to ISBI's proxy policy as necessary.

iv) Provide annual proxy voting policy updates.

2. Proxy Research, Voting and Reporting.

i) Provide voting research and voting recommendations based on ISBI's proxy voting guidelines for annual meetings for equity securities held in the portfolio.

ii) Manage ISBI's domestic and international equity proxy voting activity and execute required votes on ISBI's behalf, in accordance with the proxy voting guidelines established by ISBI. Monitor meeting schedules and agendas, and receive, open and document all physical proxy voting ballots.

iii) Provide record keeping services, maintaining detailed records of all recommended and actual votes, as well as any special instructions related to specific securities. Provide comprehensive electronic proxy-voting reports on a quarterly basis and as requested.

iv) Keep ISBI apprised of proxy voting and corporate governance changes and developments, and provide ISBI with regular access to any meetings, conference calls and/or web casts that might provide timely information on specific issues of concern regarding proxy voting and corporate governance. Assist in the preparation of issue-specific reports on proxy voting and corporate governance issues.

v) Track and monitor the holdings of ISBI's domestic and international equity portfolios managed by external investment advisors, obtaining required proxy voting information from ISBI's custodian regarding same. Cooperate with ISBI's custodian to assemble new accounts and close terminated accounts, upon ISBI's hiring or termination of external investment advisors.

vi) Reconcile with the custodian any discrepancies related to voting matters, including, but not limited to, discrepancies in holdings, ballots, numbers of shares held, proxies to be voted, votes against management, votes with management and votes withheld.

vii) Provide assistance to ISBI in respect of a company's special voting instructions and requirements for securities held in the portfolio, with special attention provided to international securities.

3. SRI Data-Feed Services

i) Provide ISBI with a quarterly list of "forbidden entities" and "scrutinized companies" based on the criteria set forth in Public Act 95-0521 ("Sudan Law") and Public Act 96-0616 ("Iran Law"). Both Public Acts can be found at the Illinois General Assembly's website (<http://www.ilga.gov/>).

ii) Provide ISBI with online technical and research support documentation, "helpdesk" technical assistance and dedicated research and client support staff to assist with training and specialized research.

iii) Each list (not the associated date) shall be subject to public disclosures under the Freedom of Information Act.

Description of ISBI's need for the Proxy Voting Advisory Services:

ISBI is issuing this RFP for due diligence purposes to ensure ISBI's receipt of quality services at cost-effective, market pricing.

Description of qualifications necessary for the provision of Proxy Voting Advisory Services to ISBI:

A. Minimum Qualifications.

The organization must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy each of the minimum qualifications will result in the immediate rejection of the proposal. The responses must contain sufficient information as prescribed to assure ISBI of its accuracy. Failure to provide complete information will result in the rejection of the proposal.

- 1) Demonstrate proof of experience of advisor in voting of institutional portfolios operated under prudent person standards.
- 2) Demonstrate proof of qualifications, experience and depth of professional staff.
- 3) Demonstrate proof of soundness of your organization's proxy voting and related SRI philosophy and process.
- 4) Acknowledge that your organization has reviewed the provisions contained in **Exhibit II** and has agreed to include those provisions within any contract formed between the parties. These provisions are not exhaustive and other state certifications and representations will be included in any agreement executed by the Board. A list of these certifications and representations may be found on the Board's website via its uniform documents.

B. Proxy Policy Development Services.

- 1) Describe in detail the proxy policy development services you propose to provide ISBI, with attention to the description of services provided above. Explain what your organization's competitive advantage would be for providing those services to ISBI. Describe what differentiates your services from your competition.
- 2) What are the primary issues and activities on which you believe institutional investors' corporate governance activities should focus? Why?

C. Proxy Research and Voting Services

- 1) Describe in detail the domestic and international proxy voting services you propose to provide to ISBI, with attention to the description of services provided above. Explain what your organization's competitive advantage would be for providing those services to ISBI. Describe what differentiates your services from your competition.

2) Provide a description of your organization's experience, process, procedures, and information technology capabilities for monitoring, researching, analyzing, recommending, and voting domestic proxies and international proxies, if not already covered above.

3) How do you handle case-by-case recommendations?

4) How do you handle recommendations on proxy fights, shareholder proposals, proxies out on loan, class actions and other special situations?

5) Identify any circumstances where you would not be able to vote on ISBI's behalf. Please include information on how you handle commingled accounts, country funds, preferred stock, warrants, debt holdings and/or special voting requirements and any other similar circumstances.

D. Proxy Vote Reporting Services

1) Describe in detail the domestic and international proxy vote reporting services you propose to provide to ISBI, with attention to the description of services provided above. Explain what your organization's competitive advantage would be for providing those services to ISBI. Describe what differentiates your services from your competition.

2) Please provide a description of your organization's experience, process, procedures, and information technology capabilities for monitoring, reporting, and keeping records for domestic and international proxies, if not already covered above.

E. SRI Data-Feed Services

1) Describe in detail the SRI Data-Feed Services you propose to provide to ISBI, with attention to the description of services provided above. Explain what your organization's competitive advantage would be for providing those services to ISBI. Describe what differentiates your services from your competition.

2) Please provide a description of your organization's experience, process, procedures, and information technology capabilities for monitoring, reporting, and keeping records of SRI data, if not already covered above.

3) Provide examples where your firm developed custom Data-Feeds for clients who required compliance with specific statutory constraints.

Description of Plan for Post-Performance Review

Any organization retained by the Board will undergo quarterly performance reviews, at Staff's discretion, wherein the organization's compliance with contract objectives and deliverables will be assessed. Evidence of material non-compliance will be reviewed by Senior Management, as well as the Board, if necessary.

Additional Competitive Proposal Requirements

Requirement #1:

A. Provide a fee quote based upon the estimates provided below with (i) the use of custom policy/guidelines and (ii) non-use of custom policy/guidelines.

U.S. Analyses: 1,600
Global Analyses: 1900
U.S. Ballots: 2,700
Global Ballots: 2900
Accounts: 45
Global Accounts:
of Authorized Users: 5

B. If more analyses are provided and/or more ballots are voted than the projections provided for above, what type of overage charges would be assessed to ISBI? If there are variations in this pricing, please describe (i.e. number of meetings voted v. number of meetings delivered).

C. Provide a fee quote for the provision of data-feeds coordinating with Illinois Public Act 95-521 and Public Act 95-616.

Requirement #2: Exhibit I: Vendor Disclosure Policy. Please provide all necessary disclosures for Vendor Disclosure Policy #s 1, 2 and 3.

Requirement #3: If retained, the organization must agree to the provisions contained in **Exhibit II**; however, this list is not exhaustive. Certain state certifications and representations will be included in any agreement executed by the Board. A list of these certifications and representations may be found on the Board’s website via its uniform documents.

Requirement #4: Investment Policy Guidelines. Please read for familiarity and note that the policy is subject to change. The investment policies vary by mandate and can be found in the Annual Report on the Board’s website (<http://www.isbi.illinois.gov/Publications.htm>).

ISBI Questionnaire

- 1) Please provide the organization’s name, as well as the name, title, address, phone number, fax number, and email address of the individual who will be serving as the

- primary contact on the account.
- 2) What year was your organization established?
 - 3) Please give a brief history of your organization and discuss the general ownership structure.
 - 4) Have there been any changes in the ownership structure of your organization in the past five years? If yes, please explain in detail.
 - 5) Please provide brief biographies of the proxy advisory team proposed for the services.
 - 6) Does your organization provide services other than those discussed in this RFP? If so, identify these services, and advise whether the provision of these additional services could or would pose a conflict, if ISBI were to retain the organization for the services described in this RFP.
 - 7) Does your organization have an ethics policy? If so, please provide.
 - 8) Is your organization represented by any third party firm or individual whose purpose is marketing and who is compensated based upon business development? If so, list all relationships, disclose the nature of the relationships and disclose the compensation arrangement.
 - 9) Will any third party or individual be compensated if your organization were to provide the services described in this RFP?
 - 10) Are you a registered investment advisor? If so, please explain your organization's reasoning for registration. If you are not a registered investment advisor, please explain your organization's reasoning for not registering. IF registered, please provide ADV Form I and II in your response to this RFP.
 - 11) Has there been any litigation involving your organization in the past five years? If yes, please attach a detailed review.
 - 12) Do you have any pending litigation where the organization is the defendant, or any SEC or NASD actions past, present, or pending?

Board RFP Procedures

- 1) Notice shall be placed in the State newspaper and in one or more industry periodicals at least 14 days before the response to the proposal document is due. Notice will also be provided to the Board's universe of proxy service providers.
- 2) All interested organizations shall return their responses to the Board's investment staff, as directed by the proposal document. Staff shall open the responses, record them and thoroughly review each for content, quality and compliance with proposal

document requirements. Staff shall compile a list of all respondents to the competitive proposal process.

- 3) Following review and evaluation of the responses from interested organizations, the field of candidates is narrowed to a smaller list of the most highly qualified organizations. At this point, the Board's investment staff meets with representatives of each organization to obtain an independent assessment of the organization's capabilities, which shall include a demonstration of the organization's voting and research software/platform capabilities.
- 4) Following the interviews with the selected organization(s), the Board's investment staff recommends to the Board one or more organizations for engagement.
- 5) The Board accepts or modifies the recommendation and makes the final decision with respect to the engagement, if satisfied with the organizations capabilities.

ISBI shall post the name(s) of the successful respondent(s) on the Board's website, along with a disclosure including the total amount applicable to the contract, the total fees paid or to be paid and a description of the factors that contributed to the selection of the organization.

Exhibit I

The Illinois State Board of Investment (ISBI) acts as fiduciary for the General Assembly Retirement System, Judges' Retirement System and State Employees' Retirement System of Illinois. As fiduciaries, the Board is responsible for managing, investing, reinvesting, preserving and protecting fund assets.

It is the policy objective of the Illinois State Board of Investment (ISBI) to prevent actual, potential or perceived conflicts of interest with its current and prospective vendors on behalf of its participants.

In furtherance of this policy, ISBI shall require the following disclosures:

1. Political Contribution Disclosure

All (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI, as well as each of the aforesaid vendors' solicitors, finders, officers, directors, partners, principals, and lobbyists, must provide written disclosures of all political contributions made during the preceding five years to a Board Member or a Board Member's Campaign Committee, and provide disclosures in writing of any future political contributions made to Board Members or a Board Member's Campaign Committee.

Additionally, (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI, as well as each of the aforesaid vendors' solicitors, finders, officers, directors, partners, principals, and lobbyists, must provide written disclosures of any future instances where a Board Member or a Board Member's Campaign Committee solicits any political contributions from such persons, regardless of the candidate or political campaign committee for whom the solicitation is requested.

The failure to provide written disclosures of political contributions or solicitations may result in the disqualification or termination of the vendor.

2. Public Act 95-0971 Disclosures

Public Act 95-0971 (the Act) amends the Illinois Procurement and Election Codes (i) to require certain "business entities" to register with the State Board of Elections; (ii) to require state bidding documents and contracts to contain language referencing a business entity's duty to register with the State Board of Elections and duty to provide a registration-related certification; and (iii) to restrict business entities from making political contributions to state constitutional officers. ISBI constitutes a "State Agency" under the Act. On January 30, 2008, the Board resolved to apply the Act's requirements to the Board's contracts.

All (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI must comply with all requirements of the Act that are applicable to the particular vendor.

Please read the Act carefully, as it may affect your ability to do business with ISBI. The Act may require registration and disclosures by you with the State Board of Elections, and requires specific language to be present in ISBI bidding materials and contracts. Further, the Act may restrict you from making political contributions to certain state officeholders.

3. Vendor Disclosure of Financial Interests and Potential Conflicts of Interest

All bidding materials from potential ISBI vendors must be accompanied by a disclosure of any ownership of the vendor in excess of 5%, as well as a disclosure of any distributive income share in excess of \$100,000.00 of the bidding entity and its parent entity. If the vendor is a publicly traded entity subject to Federal 10K reporting, it may submit its 10K disclosure to satisfy the 5% ownership disclosure. Distributive income share, in this instance, is a fee, commission, bonus or any other form of remuneration conferred by the bidding entity or its parent contingent on the bidding entity's selection for procurement of services by ISBI.

Disclosures must include at least the names, addresses, and dollar or proportionate share of ownership of each person identified and their instrument of ownership.

Further, the bidding entity must disclose whether any of the following relationships, conditions or statuses apply to representatives of the bidding entity or its parent entity:

- a. State employment, currently or in the previous three years, including contractual employment services;
- b. State employment by spouse, father, mother, son, daughter or immediate family including contractual employment for services in the previous two years;
- c. Elective Status: the holding of elective office of the State of Illinois, the government of the United States, any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois currently or in the previous three years;
- d. Relationship to anyone (spouse, father, mother, son, daughter or immediate family) holding elective office currently or in the previous two years;
- e. Employment, currently or in the previous three years, as or by any registered lobbyist of the State government;
- f. Relationship to anyone (spouse, father, mother, son, daughter or immediate family) who is or was a registered lobbyist of the State government in the previous two years;
- g. Compensated employment, currently or in the previous three years, by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections;

h. Relationship to anyone (spouse, father, mother, son, daughter or immediate family) who is or was a compensated employee in the last two years of any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections.

These disclosures are not intended to prohibit or prevent any contract. The disclosures are used to fully and publicly disclose any potential conflict to ISBI so that ISBI may adequately discharge its duty to protect its participants.

When a potential for a conflict of interest is identified, discovered, or reasonably suspected, the Executive Director shall review and comment on it in writing to the Board's Audit and Compliance Committee. This Committee shall recommend in writing to the Board whether to void or allow the contract, bid, proposal or response weighing the best interests of the State of Illinois. The comment and determination shall be a part of the associated file.

These thresholds and disclosures do not relieve ISBI, or its designees, from reasonable care and diligence for any contract, bid, proposal or response. ISBI, or its designees, shall use any reasonably known and publicly available information to discover any undisclosed potential conflict of interest and act to protect the best interest of the State of Illinois.

Failure to make any disclosure required by this provision may render the contract, bid, proposal, response or relationship voidable by the Board and may result in the termination of any existing relationship, suspension from future contracts, bids, proposals, responses or relationships for a period up to ten years. Reinstatement must be reviewed and commented on in writing by the Executive Director. The Board shall determine in writing whether and when to reinstate the party at issue. The comment and determination must be a part of the associated file.

Additionally, all disclosures must note any other current or pending contracts, leases, bids, proposals, responses or other ongoing procurement relationships the bidding, proposing, or responding entity has with any other unit of State government and must clearly identify the unit and the contract, lease, bid, proposal, response or other relationship.

This policy shall be disclosed to all vendors as early as possible in the marketing process, ideally at the initial point of contact with ISBI. However, a failure on the part of ISBI to make such disclosure shall in no way detract from the application of this policy.

ADOPTED: September 7, 2005

AMENDED: December 16, 2005

AMENDED: January 30, 2009

Exhibit II

Representations and Certifications:

- 1) If the organization retains any subcontractors to perform any portion of the work hereunder, then the organization shall promptly provide notification, in writing, to the Board. The organization shall also disclose the names and addresses of all subcontractors and the expected amount of money each will receive under the contract.
- 2) The organization acknowledges that a description of this Agreement shall be posted on the Board's website, including the name of the organization, the total amount applicable to the Agreement, the total fees paid or to be paid under the Agreement and a disclosure, approved by the Board, describing the factors that contributed to the selection of the organization.
- 3) The organization agrees to disclose the names and addresses of: (i) the organization; (ii) any entity that is a parent of, or owns a controlling interest in, the organization; (iii) any entity that is a subsidiary of, or in which a controlling interest is owned by, the organization; (iv) any persons who have an ownership or distributive income share in the organization that is in excess of 7.5%; or (v) any persons who serve as executive officers of the organization.
- 4) Public Act 95-0971:
 - a. The organization certifies, in an Exhibit to any agreement between the parties, that they are not required to register as a Business Entity with the State Board of Elections pursuant to PA 95-0971 (the Act). Further, the organization acknowledges that all Contracts between State Agencies and a Business Entity that do not comply with the Act shall be voidable under the Act; or
 - b. The organization certifies, in an Exhibit to any agreement between the parties, that they have registered as a Business Entity with the State Board of Elections and acknowledges a continuing duty to update the registration pursuant to PA 95-0971 (the Act). Further, the organization acknowledges that all Contracts between State Agencies and a Business Entity that do not comply with the Act shall be voidable under the Act.
- 5) The organization agrees to provide full disclosure of direct and indirect fees, commissions, penalties, and other compensation, including reimbursement for expenses, that may be paid by or on behalf of the organization in connection with the provision of services to ISBI. Such disclosure shall be updated promptly after a modification of those payments or an additional payment.

