

**ILLINOIS STATE BOARD OF INVESTMENT**  
**Request for Competitive Proposal: Transition Manager**

**OVERVIEW:**

ISBI (“the Fund”) is requesting information from qualified, transition managers (“Respondents” or “Managers”). **The purpose of the search is to create a pool of qualified Managers to possibly utilize in the future.** All forms needed for submitting a Request for Competitive Proposal (“RFP”) are available on the Fund’s website at <http://www.isbi.illinois.gov>. Information regarding the “RFP” may not be available in any other form or location. Respondents are responsible for monitoring the website.

**SEARCH PROCESS TIMELINE:**

- |  |                          |
|--|--------------------------|
| 1. Date of Issue:                        | October 9, 2009          |
| 2. Deadline to Submit Written Questions: | October 16, 2009, 3:00PM |
| 3. Final Filing Date:                    | October 30, 2009, 3:00PM |
| 4. Potential Interviews:                 | December 2, 2009         |
| 5. Finalist Notified By:                 | December 18, 2009        |

**PROPOSAL SUBMISSION:**

The Board’s investment consultant, Marquette Associates, Inc. (“the Consultant”) shall oversee the RFP process. If you are interested, you must submit an electronic copy of the complete Proposal forms by **3:00 PM, CDT, Friday, October 30, 2009** to:

**SEARCH CONTACT:** ISBI Search 1  
Marquette Associates, Inc.  
[ISBISearch1@marquetteassociates.com](mailto:ISBISearch1@marquetteassociates.com)

Questions concerning the RFP must be submitted in writing via e-mail to the Search Contact by **3:00 PM, CDT, Friday, October 16, 2009**. Responses to properly submitted questions will be consolidated in a single Q&A document and posted on the Fund’s website on or about **October 19, 2009**. Any proposal received after the **October 30, 2009** due date and time will not be considered.

**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>.

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 Board 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 Freedom of Information Act 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.

No Respondent shall retain a person or entity to influence (i) the outcome of an investment decision or (ii) the procurement of investment advice or services of the Board for compensation, contingent in whole or in part upon the decision or procurement.

The selection and appointment of Managers, who provide transition services to the Board, shall be made and awarded in accordance with the Illinois Pension Code, the State Officials and Employees Ethics Act and all other relevant authority under the Illinois Compiled Statutes. All ex parte communications between the Board and its Staff and Respondents to this RFP shall be recorded. Board Members and Staff shall comply with all Illinois gift ban restrictions.

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

ISBI is seeking proposals from qualified Managers to provide information on transition management services. ISBI seeks to identify three or more Managers who will be eligible over a three-year period to facilitate asset transitions on an as needed basis for ISBI. ISBI reserves the right to contract for all, any part or none of the services requested.

**Description of Transition Management Services to be performed:**

Generally, the Board's Manager is expected to implement a specific transition to the portfolio in a cost-effective, timely manner while maintaining the appropriate market exposure and controlling risk.

As transitions are needed prospectively, ISBI will require a pool of pre-qualified Managers, chosen as a result of this RFP, to submit transition proposals specific to a particular transition.

The Manager's scope of services may include, but is not necessarily limited to, the following:

- 1) Providing a proposal and pre-trade analysis to the Board for each transition event, which shall include, at a minimum:

- a. Analysis of the risks and costs associated with the transition event,
  - b. The strategies to be utilized for mitigating risks,
  - c. The strategies to be utilized for mitigating costs,
  - d. An execution timetable,
  - e. Estimate of all commission costs and trading costs for the transition event, and
  - f. A non-exclusive list of the broker/dealer partners potentially to be used for the transition event (noting, that ISBI encourages a percentage of trade commissions to go to minority and Illinois brokers). See the ISBI Minority/Illinois Brokerage Policy attached as *Exhibit III*.
- 2) Coordinating the entire transition event in cooperation with ISBI Staff, the custodian bank, the investment advisors, and any other third parties to ensure that the assets are transitioned in the most efficient and cost-effective manner possible.
  - 3) Trading securities from the legacy portfolio(s) to the target portfolio(s). These trading services could encompass multiple asset classes and multiple managers across all capitalization range.
  - 4) Minimizing tracking error and maintaining asset class or benchmark exposure.
  - 5) Preserving capital shall be taken into consideration through the expert use of trading, “cherry picking” of the legacy portfolio for the target portfolio, internal and external crossing networks, cash and all the tools required to accomplish a smooth transition.
  - 6) Utilizing futures, swaps and ETFs for risk reduction purposes only.
  - 7) Providing recurring written reports to Staff throughout the transition event, as well as providing a detailed report regarding the outcome and results of the transition event. The report shall include relevant statistics (i.e. costs, savings, trade detail and costs associated with each trade, performance in terms of implementation shortfall, attribution, etc.) and full trading/transaction reports.

**Description of ISBI’s need for Transition Management Services:**

Transitions are an important and inevitable element of portfolio management. The Board’s assembly of this pool addresses its expectation that procurement decisions occur in an environment of full disclosure characterized by competitive selection, objective evaluation and proper documentation. The overriding consideration with respect to all decisions made by the Board is that the decisions be made solely in the best interests of the underlying retirement system participants and beneficiaries.

**Description of qualifications necessary for the provision of Transition Management Services to ISBI:**

The criteria for choosing a Manager to execute a transition will vary, just as the circumstances and types of portfolios being transitioned will vary. The Board does not use the same metrics in evaluating a Manager when rebalancing from fixed income to large cap equity as when changing international equity advisors with similar mandates. The Board will consider the fact that some Managers tend to over-emphasize the value that can be added by their trading desks. The Board will also consider that a Manager which touts its ability to execute cheaply relative to some benchmark may be neglecting other important aspects of the transition. In more liquid portfolios, the trading efficiency advantage diminishes, while crossing opportunities increase. The Board will also consider the fact that a Manager which focuses too heavily on trading may miss those crosses that would significantly lower costs. Conversely, a smaller capitalization, less

liquid portfolio will have fewer crossing opportunities and the potential for value added through superior trading increases. Finally, the Board will take into consideration that a Manager which focuses on maximizing crosses may accumulate excessive and unnecessary costs associated with time delays.

***Minimum Qualifications.***

The Respondent 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.

In order to be considered for selection as a Manager, the Respondent must meet the following minimum qualifications:

- 1) The Respondent must acknowledge its fiduciary status under the Illinois Pension Code.
- 2) The Respondent must provide evidence of current registration as a broker-dealer with the SEC and FINRA, or another applicable SRO. Preferably, the Respondent also must be registered with the Securities & Exchange Commission pursuant to the Investment Advisors Act of 1940, as amended. The Respondent and its personnel must have all other authorizations, permits, licenses, and certifications as may be required under federal, state, or local law to perform the services specified in this RFP at the time it submits a response to the RFP.
- 3) The Respondent must have provided transition management services to at least three public funds over the last three years.
- 4) The Respondent must have a dedicated transition management unit with a minimum of three years of experience managing transitions of client portfolios in the following asset classes: Fixed Income, U.S. Equities, and Non U.S. Equities.
- 5) The Respondent must have conducted at least \$5.0 billion in transition management activities for the last year, as of December 31, 2008, and an aggregate of \$10.0 billion over the last three years.
- 6) The Respondent must have the ability to trade on an agency basis for ISBI.
- 7) The Respondent must maintain sufficient procedures and capabilities to ensure the timely and accurate backup and full recovery for all computers and other data storage systems related to the ISBI account(s).

**Additional Competitive Proposal Requirements:**

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

**Requirement #2:** If retained, the Manager must agree to the provisions contained in *Exhibit II*. Certain additional 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 (<http://www.isbi.illinois.gov/Publications.htm>).

**Requirement #3:** ISBI Staff will encourage the Board's Managers to execute trades through brokers who are certified minority-owned, women-owned or owned by persons with a disability ("minority"), in compliance with the Board's Minority/Illinois Brokerage Policy.

## **Questionnaire**

### **General Information:**

1. Provide a brief general history of the Respondent.
2. What is the ownership structure of the Respondent? Indicate all entities that have an ownership stake. Please provide a chart detailing owners by percentages.
3. How long has the Respondent been in the business of transition management?
4. Are you a certified minority owned business? If so, please attach state certification.
5. Provide the names, roles, and years of experience of Respondent's professional staff fully dedicated to transition management.
6. Provide the names, roles, years of experience, and reason for departure of any professional staff fully dedicated to transition management that have left the Respondent in the last five years.
7. Indicate the professional(s) who would be responsible for this account.
8. Discuss Respondent's transition management business growth over the last five years, including any increase or decrease in dedicated professionals, increase or decrease in technological resources, and increase or decrease of actual transition management events.
9. Is the Respondent represented by a third party firm, an outside individual(s) whose purpose is marketing and/or gathering assets for the Respondent, or an introducing agent that would be compensated for marketing and/or gathering assets for this RFP? If so, list all relationships and compensation structure.
10. Does the Respondent subcontract any aspect of the Respondent's transition management services to a third party or parties? If yes, please describe.
11. Does the Respondent have any strategic relationships with a third party or parties? If yes, describe the relationship(s) and disclose all revenue or commission sharing arrangements the Respondent or the Respondent's affiliates have in place regarding transition services.
12. Does the Respondent consider itself a specialist in any specific asset class? If not, please identify **one** asset class the Respondent believes it can add the most value in through its transition management group.
13. How do you add value to the process? Why should the Respondent be selected?

**Legal Information/Conflicts of Interest:**

1. Describe the procedures that are in place to safeguard confidentiality throughout a transition. How do you avoid information leakage to the market?
2. Disclose any investigations, sanctions or disciplinary actions taken against the Respondent or any of its affiliates by the SEC, NASD, or other regulatory body within the last five years.
3. Disclose any legal or arbitration claims the Respondent or any of its affiliates has settled or been required to pay within the last five years.
4. Can the Respondent act as a fiduciary for this transition as a Registered Investment Advisor under the 1940 Act? Has the Respondent served in this capacity in the past? If you are a Registered Investment Advisor, please provide ADV Forms I and II.
5. Describe those services/functions which would be performed when acting in a fiduciary capacity vs. not acting as a fiduciary.
6. Does the Respondent, including subsidiaries or closely held firms, receive any economic benefit other than what is explicitly quoted as a fee or commission for transition services? Please disclose all such means for economic benefit including soft dollars in addition to the fee or quoted commission charges.
7. Does the Respondent or an affiliate have a company or proprietary account in which you may be the other side of a given transaction? If so, what safeguards can you describe that ensure you are placing the goals of the client ahead of the Respondent's capability to book revenue in this manner?
8. Does the Respondent have any counterparty arrangements with hedge fund trading accounts? If so, please explain why this will not have a negative impact on the transition.
9. Please list all insurance carriers supplying the Respondent with coverage, including the type of coverage, and coverage amount. Documentation of such policies shall be provided, if selected by the Board.
10. Will the Respondent attest that Respondent's only sources of material benefit resulting from this transition will be from commissions or fees explicitly accounted for with regard to the transition? Will Respondent attest that Respondent provides no opportunity for any outside party to gain knowledge of the trades that will be implemented?

**Process:**

1. Discuss the primary goals of your transition management process.
2. Describe the relevant factors influencing your choice of transition execution strategy for a particular client circumstance.
3. Discuss the Respondent's process in determining the optimal mix between opportunity cost and market impact.
4. Describe the quantitative tools the Respondent uses during a transition management event.

5. Is the Respondent an agency, principal brokerage, or solely a Manager? Please describe the brokerage relationships the Respondent has in place. Please describe the process used to select brokers for trades.
6. Discuss the risk management tools (both from an operational and trading standpoint) Respondent utilizes during a transition management event.
7. Discuss the Respondent's methods for maintaining market and currency exposure to asset classes during a transition management event. Does the Respondent favor a particular method?
8. Discuss how the FX trades associated with international portfolios are executed.
9. Identify how the Respondent measures and reports the explicit and implicit trading costs associated with a transition including the reporting of all foreign exchange transaction costs. How does your organization identify the foreign exchange rate charged?
10. Discuss the Respondent's capabilities handling non-U.S. equity and fixed income transition management events.
11. Please discuss the Respondent's usage of internal and external crossing, including the Respondent's definition for each. Please discuss what role the Respondent believes internal and external crossing should play in a transition management event.
12. Does the Respondent internalize order flow? If so, please list the various conflicts this situation creates and explain how you assure client orders are given best execution in regard to timing and price?
13. If given a transition, the Manager will be expected to provide advice on methods to minimize both implicit costs and explicit costs, including trading costs. If your fees are based solely on commissions, how will you handle this conflict of interest?
14. How will you verify that you have performed and accounted for the transition properly?
15. Explain the Respondent's communication process with the client and investment consultant during the transition.
16. Explain the communication process with the target and legacy investment advisors during the transition.
17. Please list all minority owned broker/dealers that the Respondent utilizes for open market trading in the transition process. In the previous calendar year, what percentage of commissions of open market trades was executed through these broker/dealers?

**Reporting:**

1. Discuss the Respondent's calculations of relevant data when submitting a pre-trade report. Please make sure to discuss the estimated bid/ask spread, opportunity cost, market impact costs.
2. Discuss the Respondent's method for determining a security's liquidity when submitting a pre-trade report, and when determining the strategy for a transition management event.
3. How does the Respondent measure its relative success or failure after the completion of a transition management event?

4. Does the Respondent provide any reporting that shows the quality and cost effectiveness of FX trades that are performed?
5. Is the Respondent capable of providing a daily on-line report depicting transition activity?
6. Please provide a sample pre-trade and post-trade report.
7. Please provide policies and/or procedures regarding the following items:
  - a. Ethics
  - b. Investment Opportunity and Trade Allocation among Clients
  - c. Privacy
  - d. Record-keeping
  - e. Valuation

**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 and/or investment consultant's universe of Managers. Staff and investment consultant shall encourage minority owned Managers to participate in the competitive proposal process.
- 2) All interested Respondents shall return their responses to the Board's investment staff or investment consultant, as directed by the proposal document. Staff and investment consultant 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 Respondents, the field of candidates is narrowed to a smaller list of the most highly qualified Respondents. At this point, the Board's investment staff shall meet with representatives of each Respondent to obtain an independent assessment of the Respondent's capabilities.
- 4) Following the interviews with the selected Respondents, the Board's staff and investment consultant shall recommend to the Board three or more Respondents for inclusion in the Manager pool. The finalists may appear before the Board to present their firms' qualifications. The Board shall accept or modify the recommendation and make the final decision with respect to the pool's composition, if satisfied with the Respondents' capabilities.

Proposals are being distributed to Managers familiar to ISBI and/or its investment consultant and known to provide transition management services. However, qualified Managers that do not receive an RFP from ISBI are encouraged to compete and may obtain the RFP document from the ISBI website. Neither this RFP nor any response (proposal) submitted hereto are to be construed as a legal offer.

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 Respondent.

Any Manager retained by the Board will undergo performance reviews by Staff and the Board's investment consultant per transition. Evidence of material non-compliance will be reviewed by Senior Management, as well as the Board, if necessary. Per transition, a Manager must produce a post-trade report upon completion of the transition that Staff and investment consultant shall review.

The Board reserves the right to reject any or all transition management proposals. The Manager pool shall be reevaluated every three years.

**Appendix I:**

Complete the attached excel spreadsheet and submit as a separate attachment to this RFP.

## 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.

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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.

## Exhibit IV

### **Minority/Illinois Brokers and Money Managers Policy:**

#### Policy Objective

It is the policy objective of the Illinois State Board of Investment to increase access and business with state certified, minority-owned brokers and investment managers. The Board shall be proactive in its intent to include minority-owned organizations that have documented state certification and an operating office located in Illinois. The term minority will be used for all organizations, as defined by the Illinois Business Enterprise for Minorities (Black/African American, Asian American, Hispanic, Native American or Alaskan Native), Females, and Persons with Disabilities Act. On an annual basis, the Board will assess the effectiveness of the procedures established by which these goals are to be met, unless circumstances warrant more frequent review.

Further, it is the policy objective of the Illinois State Board of Investment to encourage managers to direct 25% of their trades to Illinois-based broker-dealers. Finally, it is the policy objective of the Board to encourage managers to seek to obtain best price execution at the Chicago Stock Exchange, which can be achieved by utilizing the Institutional Brokers of the Chicago Stock Exchange.

Allocations of the Fund's assets to state certified minority managers will be made in accordance with the fiduciary standards under which the Fund operates. Broker/dealer transactions completed with state certified, minority organizations on behalf of the Fund must be completed at rates fully competitive with the market.

## Brokerage

1. Staff will strongly encourage verbally and in writing the Board's domestic and international equity and investment grade fixed income managers to directly utilize state certified minority brokers. Staff will add additional asset classes when appropriate.
2. Staff will strongly encourage verbally and in writing managers to direct 25% of their trades to Illinois-based broker/dealers. For purposes of this policy, an Illinois-based broker/dealer is any dually licensed broker/dealer incorporated and domiciled in the State of Illinois.
3. Staff will strongly encourage verbally and in writing managers to obtain best price execution at the Chicago Stock Exchange ("CHX"), which may be achieved by utilizing the list of Institutional Brokers of the CHX. For purposes of this policy, the list of Institutional Brokers of the CHX is comprised of Cheevers & Co., Inc., Chancellor Dougall, E\*Trade Securities, Lek Securities, and Nutmeg Securities, Ltd.
4. Staff will provide verbally and in writing to state certified minority brokers contacts for the Board's domestic and international equity and investment grade fixed income managers.
5. Staff will monitor the use of Illinois brokers and state certified minority brokers by the Board's managers, and report results to the Board on a quarterly basis. If a manager reports less than 20% of state certified minority broker utilization staff will require the manager to report in writing the reason for the shortfall, at which time the Board will decide if the manager's practices are in accordance with the policy.
6. Staff will consider the use of Illinois brokers and state certified minority brokers when evaluating existing managers.
7. No step outs will be allowed. International brokerage policy applies to Ex-emerging markets with best efforts for emerging markets.

## Asset Management

8. Staff will review the statistical requirements for manager searches as needed to provide better access to state certified, minority managers that have appropriate products.
9. Staff will seek to include at least one state certified, minority candidate in final Staff interviews. Staff will inform the Board of all minority candidates.
10. Staff will regularly meet with Illinois minority managers on-site, and learn more about the Illinois minority manager community.
11. ISBI will make best efforts to include a meaningful representation of state certified minority money managers in the state Deferred Compensation Plan.

12. Staff will encourage consultants to be proactive and use creative approaches in achieving the Board's objectives with respect to the use of minority organizations.

**Illinois Minority Brokers (Non-Inclusive List)**

Cabrera Capital Markets (H)  
10 S. La Salle Street, Suite 1050, Chicago, IL 60603  
Robert Aguilar  
312-236-8888

CastleOak Securities (AA)  
222 W. Adams Street, 19<sup>th</sup> Floor, Chicago, IL 60606  
Mr. Jay Kantor  
312-469-7495

Cheevers & Company (W)  
440 S. La Salle Street, Suite 415, Chicago, IL 60606  
Harry C. Bailey  
312-663-2793

Finacorp Securities (H)  
141 W. Jackson, Suite 2502, Chicago, IL 60604  
Tim Golden  
312-873-0460

Gardner Rich & Co. (AA)  
401 S. Financial Place, Chicago, IL 60605  
Christopher P. Gardner  
312-922-3333

Guzman & Company (H)  
440 S. La Salle Street, Suite 1598, Chicago, IL 60605  
Ray Mansell  
312-291-0196

Grisby and Associates (AA)  
11 S. La Salle Street, Suite 840, Chicago, IL 60605  
Alvin Boutte, Jr.  
312-629-9502

Loop Capital (AA)  
200 W. Jackson Blvd., Suite 1600, Chicago, IL 60606  
Jim Reynolds  
312-913-4901

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