

# ILLINOIS STATE BOARD OF INVESTMENT

## PROCUREMENT POLICY

### **I. INTRODUCTION**

The Illinois State Board of Investment (“Board” or “ISBI”) has established the following policy for the selection and appointment of Consultants and Investment Advisers.<sup>1</sup> In establishing this policy, it is the Board’s intention to assure all interested parties 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.

In order for any Consultant or Investment Adviser to provide Investment Services to the Board, the entity must either be registered as an investment adviser under the federal Investment Advisors Act of 1940<sup>2</sup> or be a bank, as defined in the federal Investment Advisors Act of 1940.

The Board shall award all contracts for Investment Services through a competitive proposal process. For this process, the Board shall develop and use uniform documents for the solicitation, review and acceptance of all Investment Services. Documents may vary by specific investment mandate. At a minimum, the documents shall include (i) a description of the goal to be achieved; (ii) the Investment Services to be performed; (iii) the need for the Investment Services; (iv) the qualifications that are necessary and (v) a plan for post-performance review. These uniform documents shall be published on the Board’s website.

Prospectively, a description of every contract for Investment Services shall be posted on the Board’s website, including the name of the person or entity awarded the contract, the total amount applicable to the contract, the total fees paid or to be paid under the contract and a disclosure, approved by the Board, describing the factors that contributed to the selection of the Investment Adviser or Consultant.

This Procurement Policy shall not apply to the following procurements for Investment Services:

1. Sole source procurements;
2. Emergency procurements; and
3. At the Board’s discretion, (i) contracts valued at \$20,000 or less, (ii) that are nonrenewable and (iii) of one year or less in duration.

All exceptions to this policy shall be published on the Board’s website, shall name the person authorizing the procurement and shall include a brief explanation of the reason for the exception.

No Consultant or Investment Adviser 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.

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<sup>1</sup> All capitalized terms within this Procurement Policy are defined in the attached Schedule A.

<sup>2</sup> 15 U.S.C. § 80b-1, *et seq.*

The selection and appointment of Consultants and Investment Advisers for Investment Services by the Board shall be made and awarded in accordance with the Illinois Pension Code,<sup>3</sup> the State Officials and Employees Ethics Act<sup>4</sup> and all other relevant authority under the Illinois Compiled Statutes. All ex parte communications shall be recorded. Board Members and all Board employees shall comply with all gift ban restrictions.

## **II. SELECTION OF CONSULTANT SERVICES**

Under the Illinois Pension Code, the Board has authority to select Consultants who shall provide Investment Services to the Board's commingled fund.

The criteria used to determine the minimum qualifications for Consultants with respect to a specific investment mandate are:

1. Registration with the Securities and Exchange Commission under the Investment Advisors Act of 1940, or otherwise qualified under the Illinois Pension Code;
2. Firm experience advising large defined benefit plans in respect of asset allocation, manager selection and manager oversight and operating under prudent person standards, as well as related investment advisory experience;
3. Qualifications and depth of the professional staff;
4. Soundness of the firm's philosophy and process in respect of defined benefit plan assets;
5. The firm's track record with defined benefit clients;
6. The adequacy of the firm's advisory, back office, accounting and reporting and client servicing capabilities; and
7. Fees.

Requirements may differ based on the investment mandate recommended by the Board's investment staff. The establishment of these criteria shall not be used to bar or prevent any qualified Consultant from responding to a competitive proposal process.

The search process for a Consultant shall be a competitive proposal process and shall generally follow the guidelines listed below:

1. The Board shall determine the parameters of the Consultant search, upon recommendation by the Board's investment staff. Advertisements for the Consultant search 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.
2. Uniform documents shall be used for the solicitation, review, and acceptance of Investment Services and will be posted on the ISBI web site. Documents may differ based on the specific search mandate.
3. All interested respondents 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.

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<sup>3</sup> 40 Ill. Comp. Stat. § 5, *et seq.*

<sup>4</sup> 5 Ill. Comp. Stat. § 430, *et seq.*

4. Following review and evaluation of the responses from interested firms, the field of candidates is narrowed to a smaller list of the most highly qualified firms. At this point, the Board's investment staff meets with representatives of each firm to obtain an independent assessment of the firm's capabilities.
5. Following the interview with the selected firm(s), the Board's investment staff recommends to the Board one or more Consultants for engagement. Generally, the finalists appear before the Board to present their firms' qualifications.
6. The Board accepts or modifies the recommendation and makes the final decision with respect to the engagement, if satisfied with the firm's capabilities.

The competitive proposal process shall comply with all relevant sections of the Illinois Compiled Statutes.

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 Consultant.

### **III. CONTRACTING FOR CONSULTANT SERVICES**

The Board shall not enter into a contract with a Consultant that exceeds 5 years in duration. No contract to provide consulting services may be renewed or extended. At the end of the term of the contract, the Consultant is eligible to compete for a new contract. The Board shall not attempt to avoid or contravene this restriction by any means.

Investment Services provided by a Consultant shall be rendered pursuant to a written contract between the Consultant and the Board. The Board's uniform Investment Consulting Agreement shall be the base contract. This agreement shall be in compliance with all relevant sections of the Illinois Compiled Statutes.

The contract must include the following terms, among others:

1. Acknowledgement in writing by the Consultant that the firm is a fiduciary with respect to the Board;
2. The description of the Board's investment policy and notice that the policy is subject to change;
3. (ii) 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 Consultant in connection with the provision of services to the Board and (ii) a requirement that the Consultant update the disclosure promptly after a modification of those payments or an additional payment. The disclosures shall include the date and amount of each payment and the name and address of each recipient of a payment;
4. A requirement that the Consultant, in conjunction with the Board's investment staff, submit periodic written reports, on at least a quarterly basis, for the Board's review at its regularly scheduled meetings. All returns on investments shall be reported as net returns after payment of all fees, commissions and any other compensation;
5. Disclosure of the names and addresses of (i) the Consultant; (ii) any entity that is a parent of, or owns a controlling interest in, the Consultant; (iii) any entity that is a subsidiary of, or in which a controlling interest is owned by, the Consultant; (iv) any persons who have

an ownership or distributive income share in the Consultant that is in excess of 7.5% or (v) serves as an executive officer of the Consultant or Investment Adviser;

6. A disclosure of the names and addresses of all subcontractors, if applicable, and the expected amount of money each will receive under the contract, including an acknowledgement that the Consultant must promptly make notification, in writing, if at any time during the term of the contract a contractor adds or changes any subcontractors. For purposes of this paragraph (6), "subcontractor" does not include non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy-voting services, services used to track compliance with legal standards and investment fund of funds where the Board has no direct contractual relationship with the Investment Advisers or partnerships;
7. A description of the Investment Service(s) to be performed;
8. A description of the need for the Investment Service(s);
9. A description of the plan for post-performance review;
10. A description of the qualifications necessary;
11. The duration of the contract; and
12. The method for charging and measuring cost.

These contract terms are subject to change based on amendments to the Illinois Compiled Statutes.

#### **IV. SELECTION OF INVESTMENT ADVISORY SERVICES**

Under the Illinois Pension Code, the Board has authority to select Investment Advisers who shall provide Investment Services to the Board's commingled fund.

The criteria used to determine the minimum qualifications for Investment Advisers with respect to a specific investment mandate are:

1. Registration with the Securities and Exchange Commission under the Investment Advisers Act of 1940, or otherwise qualified under the Illinois Pension Code;
2. Experience of the firm in the management of institutional portfolios operated under prudent person standards, as well as related investment management experience;
3. Qualifications and depth of the professional Staff;
4. Soundness of the firm's investment philosophy and process;
5. The investment record of the firm and the firm's principals in former associations where that record is verifiable;
6. The adequacy of the firm's trading, back office, accounting and reporting and client servicing capabilities; and
7. Fees.

Requirements may differ based on the investment mandate recommended by the Board's investment staff and Consultant. The establishment of these criteria shall not be used to bar or prevent any qualified Investment Adviser from responding to a competitive proposal process.

The search process for Investment Adviser(s) shall be conducted in a substantially similar manner to that of the Consultant search process, except that the Board's Consultant may assist the Board and the Board's investment staff in the search.

If in any case an Emerging Investment Manager(s) meets criteria established by the Board and Consultant for a specific search (if a Consultant is utilized), the Emerging Investment Manager(s) shall receive an invitation by the Board, or the Board's Investment Policy Committee and/or Emerging Manager Committee, to present the firm(s) for final consideration. In the case where multiple Emerging Investment Managers meet the search criteria, the Board's investment staff may choose the most qualified firm or firms to present to the Board.

The competitive proposal process shall comply with all relevant sections of the Illinois Compiled Statutes.

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 Investment Adviser.

No Board Member, ISBI employee or ISBI Consultant shall knowingly cause or advise the Board to engage in an investment transaction with an Investment Adviser when the Board Member, ISBI employee, ISBI Consultant or any of their spouses (i) has any direct interest in the income, gains or profits of the Investment Adviser through which the investment transaction is made or (ii) has a relationship with that Investment Adviser that would result in a pecuniary benefit to the Board Member, ISBI employee or ISBI Consultant or any of their spouses as a result of the investment transaction. With respect to this requirement, Consultant includes an employee or agent of a consulting firm who has greater than 7.5% ownership of the consulting firm.

**V. CONTRACTING FOR INVESTMENT ADVISORY SERVICES**

Investment Services provided by an Investment Adviser shall be rendered pursuant to a written contract between the Investment Adviser and the Board. The Board's uniform Investment Management Agreement shall be the base contract. This contract shall be in compliance with all relevant sections of the Illinois Compiled Statutes and contain contract terms similar to those identified in Section II. Selection of Consulting Services. Contract terms are subject to change based on amendments to the Illinois Compiled Statutes.

ADOPTED: MAY 7<sup>TH</sup>, 2009

## SCHEDULE A

### DEFINITIONS

“Consultant.” “Consultant” means any person or entity retained or employed by the board of a retirement system, pension fund, or investment board to make recommendations in developing an investment strategy, assist with finding appropriate investment advisers or monitor the board’s investments. “Consultant” does not include non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy-voting services, services used to track compliance with legal standards and investment fund of funds where the board has no direct contractual relationship with the investment advisers or partnerships.<sup>5</sup>

“Emerging Investment Manager” means a qualified investment adviser that manages an investment portfolio of at least \$10,000,000 but less than \$10,000,000,000 and is a “minority owned business,” “female owned business” or “business owned by a person with a disability” as those terms are defined in the Business Enterprise for Minorities, Females and Persons with Disabilities Act.<sup>6</sup>

“Investment Adviser.” A person is an “investment adviser,” “investment advisor” or “investment manager” with respect to a pension fund or retirement system established under the Illinois Pension Code if the person:

1. Is a fiduciary appointed by the board of trustees of the pension fund or retirement system in accordance with Section 1-109.1;
2. Has the power to manage, acquire or dispose of any asset of the retirement system or pension fund;
3. Has acknowledged in writing that he or she is a fiduciary with respect to the pension fund or retirement system; and
4. Is at least one of the following (i) registered as investment adviser under the federal Investment Advisers Act of 1940; (ii) registered as an investment adviser under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisers Act of 1940; or (iv) an insurance company authorized to transact business in this State.<sup>7</sup>

However, under Public Act 96-0006, a person may not act as a consultant or investment adviser unless that person is registered as an investment adviser under the federal Investment Advisers Act of 1940 or a bank, as defined in the federal Investment Advisers Act of 1940.<sup>8</sup>

“Investment Services.” For the purposes of 40 ILCS 5/1-113.14, “investment services” means services provided by an investment adviser or a consultant.<sup>9</sup>

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<sup>5</sup> 40 Ill. Comp. Stat. § 5/1-1-1.5.

<sup>6</sup> Id. at 5/1-109.1(4).

<sup>7</sup> Id. at 5/1-101.4.

<sup>8</sup> Id. at 5/1-113.13(b).

<sup>9</sup> Id. at 5/1-113.14(a).