

PROCUREMENT OF INVESTMENT CONSULTANTS

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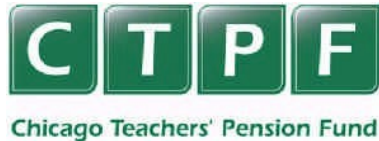
Presented to Board: _____
Date

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Date

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Proposed new Title, Chapter, and Section of Administrative Rule: **To be determined by Board Counsel.**



PROCUREMENT RULE FOR INVESTMENT CONSULTANTS

Purpose

The Board of Trustees (“Board” or “Trustees”) of the Public School Teachers’ Pension and Retirement Fund of Chicago (“CTPF” or the “Fund”) establishes the following Procurement Policy (“Policy”) so that all decisions to procure Investment Services from an Investment Consultant will be made with respect for the principles of competitive selection, full disclosure, objective evaluation, and proper documentation.

A. Definitions

1. “Emerging Investment Adviser” or “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 Person with a Disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act, 30 ILCS 575/2.
2. “MWDBE Investment Adviser” or “MWDBE Investment Manager” means a qualified Investment Adviser that manages an investment portfolio 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, 30 ILCS 575/2.
3. “Investment Adviser” or “Investment Manager” means any entity that:
 - a. Is a fiduciary appointed by the Board;
 - b. Has the power to manage, acquire, or dispose of any of the Fund’s assets;
 - c. Has acknowledged in writing that it is a fiduciary with respect to the Fund; and
 - d. Is at least one of the following:
 - (i.) Registered as an investment adviser under the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.);

- (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;
 - (iv.) An insurance company authorized to transact business in Illinois;
 - (v.) Any other such entity that may be provided for in Section 1-101.4(4) of the Illinois Pension Code, 40 ILCS 1-101, et seq.;
 - e. Will manage the assets of the Fund in an Asset Allocation Category pursuant to the terms of an agreement with a limited liability corporation, limited liability partnership, commingled investment fund, collective investment fund, or such other similar investment vehicle.
4. “Investment Consultant” means any entity retained by the Board to make recommendations in developing an investment policy, assist with finding appropriate Investment Advisers or other investment related professionals, or monitor the Board’s investments. Investment 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 Adviser(s) or partnerships.
5. “Investment Services” means services to be provided by an Investment Consultant(s) relating to the Fund’s investments in the following Asset Allocation Categories:
- a. Fixed income – domestic and international;
 - b. Equity – domestic and international;
 - c. Cash management;
 - d. Alternative investments through a “fund of funds” or on a direct basis;
 - e. Private equity;
 - f. Public and private real estate - domestic and international; and
 - g. Other such Investment Services as the Trustees may determine.

B. Application of Competitive Selection Procedures. This Policy applies to the procurement of Investment Services to be provided by an Investment Consultant, except:

1. Sole source procurements;
2. Emergency procurements; and
3. At the discretion of the Board, contracts for procurements of Investment Services for less than \$20,000, or contracts for Investment Services that are for a nonrenewable term of one year or less; and
4. At the discretion of the Board, a follow-on or legacy investment(s) through closed-end funds pursuant to the Board's Investment Policy, where the Board determines that investment over a market cycle is necessary to achieve the investment allocation policy targets.

All exceptions granted shall be published on the Fund's web site and shall include a brief explanation of the reason for the exception.

C. Competitive Selection Procedures

1. The Investment Consultant shall maintain a proprietary database, or shall subscribe to a database, open to all prospective Investment Advisers in all Asset Allocation Categories appropriate for that Investment Consultant's scope of engagement. The Investment Consultant shall, with the guidance and assistance of the Fund's Trustees and Fund Investment Staff, encourage broad based participation by Investment Advisers to submit data to the Investment Consultant. The Investment Consultant shall require data from the Investment Advisers on a uniform basis and shall make the database easily accessible.
2. Prospective Investment Consultants may amend statements of qualifications at any time during the search process by filing a new statement.
3. Failure to register or submit data to an Investment Consultant database may effectively disqualify an Investment Adviser from any search for Investment Services.
4. When allowing managers to register on the database, the Investment Consultant may, with the guidance of the Fund's Trustees and Investment Staff, consider factors reasonably tailored to the specific Asset Allocation Category. A prospective Investment Adviser shall meet the requirements of Section B.2.d of this Policy, or have an application pending to meet such requirements.
5. The Board may also elect to subscribe to a proprietary database(s) which lists Investment Advisers for the purpose of identifying potential Investment Advisers.

6. Uniform Documents. Uniform documents shall be used for the solicitation, evaluation, and retention of Investment Consultants and shall be posted on the Fund's website. Such documents shall include the requirements set forth in Section 1-113.14(c) of the Illinois Pension Code.
7. Public Notice of Competitive Selection Procedures
 - a. Public Notice. The Board shall determine when there shall be a search for an Investment Consultant. The Board shall determine the parameters of the search.
 - b. Form and Publication. Notice of the need for an Investment Consultant shall be published in any manner deemed appropriate by the Board. The Board shall publish a Request for Proposals ("RFP"). An RFP may be publicized in a relevant trade journal or publication at least 30 days prior to the return date established in the RFP.
 - c. Public Availability. A copy of each RFP shall be made available for public inspection on the Fund's website until the deadline for responses to the RFP.
8. Search for Investment Consultant. Each RFP shall be in the form specified by the Board or Fund's Investment Staff and shall contain, inter alia, all of the following:
 - a. A requirement that the response shall contain the firm's contact information.
 - b. A date by which a response shall be returned.
 - c. The evaluation factors designated in Section D.9 of this Policy.
 - d. A copy of the Fund's current Investment Policy, with notice that such Policy is subject to change.
 - e. A listing of the Fund's current Investment Advisers in the Asset Allocation Categories for which the Investment Consultant will be responsible and the assets under management with each Investment Adviser.
 - f. A copy of the "quiet period" guidelines designated in Section D.10 of this Policy and a copy of the Fund's Code of Ethics. The RFP shall note that the Investment Consultant must agree to comply with the Fund's Code of Ethics at all times.

- g. The Fund’s standard Investment Consultant Agreement, which shall be attached to the RFP and which shall include, inter alia, the requirements set forth in Section 1-113.14(c) of the Illinois Pension Code. The RFP shall note that amendments to the Fund’s standard Investment Consultant Agreement are disfavored. Any objections to the Fund’s standard Investment Consultant Agreement shall be detailed in the response to the RFP, not after a selection has been made.
- h. A requirement that the response to the RFP shall contain all required disclosures under the Illinois Pension Code (collectively “Investment Consultant Disclosures”) and shall include the following:
 - (i.) The method for charging and measuring fees, including disclosure of the direct and indirect fees, commissions, penalties, and other compensation, including reimbursement for expenses, that may be paid by or on behalf of the Investment Consultant in connection with the provision of Investment Services to the Fund;
 - (ii.) The names and addresses of: the Investment Consultant; any entity that is a parent of, or owns a controlling interest in, the Investment Consultant; any entity that is a subsidiary of, or in which a controlling interest is owned by, the Investment Consultant; any persons who have an ownership or distributive income share in the Investment Consultant that is in excess of 7.5%; or serves as an executive officer of the Investment Consultant. For purposes of this Section C.8, an “executive officer” shall mean any president, director, vice-president in charge of a principal business unit, division, or function (such as investment management, marketing, or administration), and any other employee who performs a policy-making role, regardless of the title given to their position; and
 - (iii.) A statement that contingent and placement fees are prohibited and the names and addresses of all subcontractors, if any, and the expected amount of money each will receive under the contract.
 - (iv.) A disclosure of the number of the Investment Consultant’s investment and senior staff and the percentage of that staff who are a minority person, a female, a veteran, or a person with a disability; the number of contracts for investment, consulting, professional, and artistic services the Investment Adviser has with a minority or female owned business, a veteran owned small business, or a business owned by a person with a disability; the number of contracts for investment, consulting, professional, and artistic services which the Investment Adviser has with a business other than a minority or female owned business, a veteran owned small business, or a business owned by a person with a disability,

if more than 50% of the services performed pursuant to that contract are performed by a minority person, a female, a veteran, or a person with a disability. For the purposes of this subsection, the terms “minority person”, “female”, “person with a disability”, “minority owned business”, “female owned business”, and “business owned by a person with a disability” have the same meaning as those terms have in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.. For the purposes of this subsection, the terms “veteran” and “veteran owned small business” have the same meaning as those terms have in 30 ILCS 500/45-57. For the purposes of this subsection, the terms “professional service” and “artistic service” have the same meanings as those terms have in 30 ILCS 500/1-15.60.

- i. Disclosure by the Investment Consultant, any executive officer (as defined in h.(ii.) above) or shareholder of the Investment Consultant, any parent entity, and any executive officers of any entity that is a parent of, or owns a controlling interest in, the Investment Consultant, of any financial support in excess of \$1,000 per calendar year within the prior five (5) calendar years and/or formal involvement with any community or not-for-profit organization with a central purpose of influencing public policy related to budgetary and fiscal policy which directly or indirectly relates to the continued availability and long-term viability of defined benefit pensions in the public sector, education policy, and retirement security policy.
 - (i.) For the purposes of this disclosure, an organization has the “central purpose” of influencing policy if it is understood with the exercise of reasonable due diligence, including but not limited to the examination of the organization’s IRS filings and other publicly-available statements of purpose, that the organization intends to affect policy or engage in lobbying or other advocacy activity. An Investment Consultant is not required to disclose contributions to organizations that engage in such activities in furtherance of providing medical research, aid to the poor, disaster relief, or other such tangible goods or service. The Trustees have determined that the organizations listed in Exhibit A presently fall under this required disclosure policy.
- j.
 - (i.) Disclosure by the Investment Consultant, any executive officer (as defined in h.(ii.) above) of the Investment Consultant, any parent entity, the executive officers of any entity that is a parent of, or owns a controlling interest in the Investment Consultant, the entity itself, or any shareholder of the Investment Consultant of any direct or indirect financial support in excess of \$1,000 per calendar year within the prior five (5) calendar years and/or formal

involvement with any community or not-for-profit organization relating to public education; and

- (ii.) Disclosure of any involvement by the above-named persons as a member or director of a charter school that contributes to the Fund. For purposes of this Section C.8, a “shareholder” shall mean any person who has an ownership or distributive income share in the Investment Consultant.
- k. Disclosure by the Investment Consultant within five (5) business days of any material changes in the primary consultant and of any change in ownership other than the ownership interests of employees of the Investment Consultant or within ten (10) business days of any legal actions instituted against the Investment Consultant, its parent entity, any entity that owns a controlling interest in the Investment Consultant, or any subsidiary of the Investment Consultant involving the investment of securities for institutional investors or of any investigations, examinations, or other proceedings commenced by any governmental regulatory agency including those that would be reportable in the disciplinary questions of Investment Consultants’ next ADV filing with the SEC, which are not either conducted in the ordinary course of Investment Consultant’s, its parent’s, controlling entity’s, or Investment Consultant’s subsidiaries’ business or conducted as part of an industry sweep or other general fact-finding related inquiry.
- l. Disclosure by the Investment Consultant and any parent, controlling entity, subsidiary, or affiliate of any direct or indirect consulting relationships with the Board of Education of the City of Chicago entered into within the five (5) year period prior to the execution of this Agreement. Any such direct or indirect consulting relationships with the Board of Education of the City of Chicago entered into on or after the execution of this Agreement shall be identified in an amended Investment Consultant Disclosure within thirty (30) days of any new relationship with the Board of Education of the City of Chicago.

All documents created as part of an RFP, including the responses by prospective Investment Consultants, shall be considered public records and shall be made available for inspection and copying as provided in Section 3 of the Illinois Freedom of Information Act, 5 ILCS 140/1, et seq.

- 9. Evaluation of Responses to RFP. Responses will be evaluated by the Board and the Fund’s Investment Staff based on the following evaluation factors. The relative importance of the evaluation factors will vary based on the parameters of the search. The Fund’s Investment Staff and Investment Consultant will determine, based on the evaluation factors, the top-qualified Investment Advisers and will disclose the non-finalists. The Fund’s Investment

Staff and Investment Consultant will provide the Board with a copy of the Investment Consultant Disclosures prior to consideration of the finalists. The Board will select in the exercise of its discretion, based on the evaluation factors, an Investment Consultant from the list of top-qualified Investment Consultants. The evaluation factors are as follows:

- a. The firm's financial and investment consulting client information, including:
 - (i.) The total number, market value and revenues derived from the firm's investment consulting clients as of the prior year-end;
 - (ii.) The percentage of the firm's gross revenue that is contributed by the investment consulting department;
 - (iii.) Any other businesses in which the firm is involved;
 - (iv.) References from at least 3 public fund investment consulting clients;
 - (v.) The history of the firm's relationship with its 10 largest investment consulting clients; and
 - (vi.) The number and size of client relationships gained and lost in each of the last three calendar years and year-to-date.
- b. History of the firm, including when the firm was established and when consulting services were first provided under the current structure.
- c. The firm's experience advising large defined benefit plans with respect to the Asset Allocation Categories, Investment Adviser selection and oversight, and related Investment Services experience.
- d. The qualifications and depth of the firm's professional staff and adequacy of the firm's client servicing capabilities, including:
 - (i.) The firm's approach to account servicing;
 - (ii.) The maximum number of account relationships assigned to a consultant;
 - (iii.) The identity of the primary consultant on the account and whether a specific person is designated to handle matters when the primary consultant is not available;

- (iv.) An organizational chart indicating the number of employees, including the average employee tenure, education, EEO data, etc., in each reporting unit for the firm's consulting area; and
 - (v.) Brief biographical information for the primary consultant and any other individuals expected to be assigned to the Fund's account, including number of years in the most recent position.
- e. The firm's litigation history within the last 10 years relating to professional services rendered.
- f. The firm's Investment Consultant Disclosures and the firm's commitment to the continued viability and funding of Illinois public sector defined benefit pension plans, the history of regulatory actions regarding the firm's practices, the firm's record of integrity and business ethics, and the strength of the firm's internal Ethics and Conflicts of Interest Policies.
- g. The firm's process for the search and selection of Investment Advisers and Emerging or MWDBE Investment Advisers, including:
 - (i.) A description of the database(s) used to track and evaluate Investment Advisers, Emerging Investment Advisers, and MWDBE Investment Advisers including: the number of Investment Advisers and Emerging or MWDBE Investment Advisers in the database; whether a fee must be paid to be included in the database, and, if so, how much; whether the database is proprietary; whether the requirements for access are uniformly applied; and the ability of Investment Advisers and Emerging or MWDBE Investment Advisers to access the database;
 - (ii.) A specific description of the firm's policy for increasing access by and outreach to Emerging and MWDBE Investment Advisers;
 - (iii.) The process used to select Investment Advisers for specific Asset Allocation Categories; and
 - (iv.) How the firm coordinates AIMR performance standards.
- h. The firm's process of monitoring and evaluating the performance of Investment Advisers, including:
 - (i.) The indices and composites used to evaluate Investment Advisers' performance within a specific Asset Allocation Category, as well as a fund's overall investment performance;

- (ii.) A description of the peer group and performance benchmarks used; and
 - (iii.) A description of the process for determining when to recommend termination of an Investment Adviser.
 - i. The firm's value-added services to its clients, including: investment policy development; asset and liability modeling; performance evaluation; custodian search and evaluation; and fee negotiations.
 - j. The firm's performance measurement systems environment.
 - k. The reasonableness of the proposed fees, including the firm's proposed retainer and fees for each service performed.
10. Quiet Period. There shall be a quiet period to ensure that the process of selecting an Investment Consultant is efficient and fair.
- a. The quiet period shall commence with the posting of the RFP and end when the parties have executed the Investment Consultant Agreement.
 - b. Initiation, continuation, and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations.
 - c. During the quiet period, no fiduciary or Investment Staff member shall accept meals, travel, lodging, entertainment, or any other good or service of value from the candidates.
 - d. All authority related to the search process shall be exercised solely by the Board as a whole, and not by individual Board members.
 - e. If any Board member or Fund Investment Staff member is contacted by a candidate during the quiet period about a matter relating to the pending selection, the Board member or Fund Investment Staff member shall refer the candidate to the Director of Investments or Executive Director.
- While the quiet period does not prevent Board approved meetings or communications by Investment Staff with an incumbent Investment Consultant that is also an Investment Consultant candidate, discussion related to the pending selection shall be avoided during those activities.
- f. An Investment Consultant candidate may be disqualified from a search process for a willful violation of this Policy.

11. Delivery of Responses. Responses shall be submitted in accordance with the terms of the RFP.
12. Discussions
 - a. Notwithstanding the quiet period provided for in Section D.10 of this Policy, the Board through any designated Trustee, the Executive Director, counsel, and Investment Staff may conduct discussions with Investment Consultant candidates to:
 - i. Determine in greater detail an Investment Consultant's qualifications; and
 - ii. Negotiate the various terms of the agreement, including fees.
 - b. Timing of Discussions. Discussions with the designated Trustee, Executive Director, counsel, and Investment Staff may be held before and after the responses to the RFP have been submitted.
 - c. No Disclosure of Information. The Trustees, Executive Director and Investment Staff shall not disclose publically any information contained in any responses until the presentation of the finalists at a Board meeting.
13. Award of Contract
 - a. The Board shall determine the Investment Consultant(s) to be retained.
 - b. The Board, through its Executive Director, Investment Staff, and counsel, shall negotiate the final terms of the Investment Consultant Agreement or the terms of any such other agreement as may be necessary. The Board may, in the interest of efficiency, negotiate with other Investment Consultants which were finalists, while negotiating with the Investment Consultant chosen.
 - c. Nothing in this Section shall prohibit the Board from making a selection that represents, in the Board's discretion, the best value based on qualifications, fees and other relevant factors established in the responses being considered.
 - d. The Board shall not enter into a contract with an Investment Consultant that exceeds 5 years in duration. No contract with an Investment Consultant may be renewed or extended, although at the end of the term of a contract a current Investment Consultant is eligible to compete for a new contract, subject to the terms of this Policy.

14. Notice of Contract. The Board's decision(s) shall be public information and shall be posted on the Fund's website. Such notice shall include the name of the successful Investment Consultant(s), the basis for determining the total fees to be paid, and a disclosure approved by the Board describing the factors that contributed to the selection of the Investment Consultant(s).

History

Revised: August 20, 2015

Revised: June 2, 2017

Revised: July 17, 2018

Review

The Board shall review this Investment Consultant Procurement Policy annually.

EXHIBIT A

INVESTMENT ADVISERS PROCUREMENT POLICY

American Enterprise Institute,
American Legislative Exchange Council,
Brookings Institution,
California Common Sense,
California Policy Center,
Civic Committee of the Commercial Club,
Heritage Foundation,
Howard Jarvis Taxpayers Association,
Illinois Municipal League,
Illinois Policy Institute,
Independent Institute,
Jessie Ball DuPont Fund,
Laura and John Arnold Foundation,
Mackinac Center for Public Policy,
Manhattan Institute for Policy Research,
Massachusetts Taxpayers Foundation,
Mercatus Center at George Mason University,
National Council on Teacher Quality,
National Institute for Labor Relations Research,
Nelson Rockefeller Institute of Government,
National Taxpayers United of Illinois,
Pioneer Institute,
R Street Institute,
Reason Foundation,
Show Me Institute,
State Policy Network,
Students First,
Taxpayers for Sustainable Pensions,
Taxpayers United of America,
Teacherspensions.org,
Texas Public Policy Foundation,
The Future of Freedom of Foundation,
The Pew Charitable Trust,
Thomas B. Fordham Institute,
UnionWatch,
Urban Institute,
Wyoming Liberty Group,

And any state or local affiliates or chapters of the above organizations.

July 17, 2018