



## Watch List Policy

### **Purpose**

The Board of Trustees (“Board” or “Trustees”) of the Public School Teachers’ Pension and Retirement Fund of Chicago ( “CTPF” or the “Fund”) established the following Watch List Policy (Policy) so that all decisions to add and remove managers to and from the Watch List, respectively, are done with respect to a fair and objective evaluation. The Watch List criteria, outlined below, are used to identify managers that are eligible to be added to the CTPF Watch List. The Watch List guidelines also recognizes when a manager has met the criteria to be removed from the CTPF Watch List.

### **I. Watch List Guidelines**

The Board of Trustees is responsible for monitoring the performance of the Fund’s investment managers on an ongoing basis. The Board may place a manager on the CTPF Watch List at any time. The Board may also terminate an investment manager at any time whether or not a manager is on the watch list.

The Board may place an investment manager on the “watch list” for a variety of reasons. These can be separated into two broad categories – qualitative and quantitative factors. The former focuses on personnel, organizational and legal issues, while the latter addresses performance.

Placing an investment manager on the “watch list” is an intermediate step that may be taken to either resolve a concern/problem or terminate the relationship with the manager. These “watch list” guidelines are not to be mechanically applied. Rather, the Board, Investment Staff and the Investment Consultant (Consultant) shall conduct an appropriate formal review process prior to terminating a relationship with an investment manager; provided, however, that the Board, in its discretion, may terminate an investment manager without engaging in a formal review process if it determines that immediate action is necessary to prevent harm to the Fund.

**A. Qualitative Factors**

Below are *qualitative* factors that the Board may consider in determining whether a relationship with an investment manager should be terminated. Because of the subjective nature of Qualitative Analysis, each situation should be reviewed on a case-by-case basis.

<b>FACTOR</b>	<b>EVALUATION</b>	<b>ACTION STEPS</b>
<ul style="list-style-type: none"> <li>• Deviation from stated investment style and philosophy</li> </ul>	<ul style="list-style-type: none"> <li>• Style mapping – total fund analysis.</li> <li>• Style attribution – manager specific style analysis.</li> </ul>	Assess if manager’s style and philosophy are still consistent with the Fund’s asset allocation structure. Place on watch list.
<ul style="list-style-type: none"> <li>• Changes in ownership or business plan</li> </ul>	Requires immediate notification to the Fund of any pending changes in ownership.	Assess if change may detrimentally affect investment philosophy and asset performance. Place on watch list.
<ul style="list-style-type: none"> <li>• Turnover of key personnel</li> </ul>	Requires immediate notification to the Fund of any changes in key personnel.	Assess if the personnel turnover on the account is material. Place on watch list.
<ul style="list-style-type: none"> <li>• Litigation</li> </ul>	Requires immediate notification to the Fund if entity which manages the Fund’s portfolio is involved in any litigation.	Assess the severity and likely impact of the litigation on the investment process. May place manager on “watch list”.
<ul style="list-style-type: none"> <li>• Compliance</li> </ul>	Requires immediate notification to the Fund of any violations of compliance with Investment Policy Statement (“IPS”), federal & state security laws, gross negligence, and willful misconduct	Assess the severity of the violation and determine if violation is material. May place manager on “watch list”.
<ul style="list-style-type: none"> <li>• Brokerage</li> </ul>	Investment manager not meeting CTPF’s brokerage requirements for four consecutive quarters.	Assess investment manager’s ability to meet the Fund’s brokerage requirements. Place on watch list.

**B. Quantitative Factors – Public Market Investments**

Below are *quantitative* factors to be considered in determining the appropriateness of placing an investment manager on the “watch list”.

- i. Minimum of three years of performance preferred but not required prior to placement on the “watch list”.
- ii. Individual managers will be measured and compared to appropriate performance target indices on a risk-adjusted and net-of-fee basis.
- iii. **Both Performance Criteria to be met:**

PERFORMANCE TEST	BENCHMARK	FAIL CRITERIA
Rolling Three Years	Relative to appropriate style benchmark	If manager fails to exceed the style benchmark over a 3-year rolling period for two consecutive quarters
Rolling Three Years	Relative to appropriate peer group	If manager performs below the 50 <sup>th</sup> percentile relative to the peer group over a 3- year rolling period for two consecutive quarters

**C. Quantitative Factors – Private Market Real Asset Investments**

Below are *quantitative* factors to be considered in determining the appropriateness of placing an investment manager on the watch list.

- i. Minimum of five years of performance preferred but not required prior to placement on the watch list.
- ii. Individual managers will be measured and compared to appropriate NCREIF indices on a risk-adjusted and net-of-fee basis.

**Both Performance Criteria to be met:**

PERFORMANCE TEST	STRATEGY/BENCHMARK	FAIL CRITERIA
Rolling Five Years	<ul style="list-style-type: none"> <li>- Open-end Core / NFI-ODCE Value Weighted Index</li> <li>- Open-end Value-add / NFI Value Diversified Index</li> <li>- Closed-end Value-add / Townsend Value-add Fund Index</li> <li>- Opportunistic / Townsend Opportunistic Fund Index</li> <li>- Infrastructure / 8% Target</li> </ul>	If manager fails to exceed the relevant NCREIF index over a 5-year rolling period for two consecutive quarters

Rolling Five Years	- Core / NFI-ODCE Value Weighted Index - Non-Core / Vintage Year - Infrastructure / Vintage Year	If manager performs below the 50 <sup>th</sup> percentile relative to the peer group over a 5-year rolling period for two consecutive quarters
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Where applicable, the Fail Criteria may be applied using time-weighted and dollar-weighted performance returns, as well as an equity multiple. Since robust benchmarks and peer groups may not be readily available for Infrastructure investments, the Board will assess Infrastructure investments on a case-by-case basis while also taking into account unique circumstances impacting each manager’s performance. While termination of a manager with a close-end vehicle may be extremely difficult, if not impossible, “watch list” history will serve as an important point of reference when the Board considers re-investing in that manager’s follow-on or subsequent funds.

**II. Watch List Review Process**

When a manager is placed on the “watch list”, Investment Staff and Consultant will conduct a formal manager review which includes:

- A. Notify the manager, in writing, describing the reasons for placement on the “watch list”.
- B. Request that the manager provide a written analysis of the qualitative or quantitative factors that led to their firm’s placement on the “watch list”.
- C. Research alternative investment opportunities in the event the incumbent manager is subsequently terminated.

Within one year from the date of being placed on “watch list” and after an assessment of the qualitative or quantitative factors that led to the manager’s placement on “watch list”, the Trustees shall make a determination as to the appropriate course of action. Possible courses of action include, but are not limited to:

- ❖ Remove the manager from the “watch list” if at the end of the watch period the qualitative or quantitative factors have been sufficiently improved or rectified
  - For quantitative factors, the manager will be evaluated over a period of up to one year. The evaluation will emphasize long-term performance
- ❖ Keep the manager on the “watch list” for a new “watch list” period of up to 1 year
- ❖ Terminate the manager

Based on the specific factors which led to the manager’s placement on the “watch list,” the Board with the assistance of the Investment Staff and Consultant shall determine specific qualitative or quantitative metrics on which to evaluate improvement. The same qualitative or quantitative factors highlighted in the prior sections shall be used as guidelines to remove a manager from the “watch list.” A manager retention decision is very important to the continued success of the Fund’s investment strategy. As such, it should not be taken lightly nor should it be made with blind reliance on quantitative or qualitative guidelines. The ultimate decision rests in the collective judgment and

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authority of the Board of Trustees following consultation with Investment Staff and/or the Consultant.

**Nothing contained in this Watch List Policy mandates retention or termination of an investment manager.**

### **History**

Approved April 28, 2011

Revised April 25, 2013

Reviewed March 20, 2014

Revised August 20, 2015

### **Review**

The Board shall review this Watch List Policy annually.