



## **PROCUREMENT RULE FOR INVESTMENT ADVISERS**

### **Purpose**

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

It is the Board’s objective that all Investment Advisers shall have uniform access to the Board, the Committees, the Fund’s Investment Staff, and to the Investment Consultant during any search for Investment Services.

### **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, Women-Owned Business, or Business Owned By A Person With A Disability, as those terms are defined in the Business Enterprise for Minorities, Women 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, Women-Owned Business, or Business Owned By A Person With A Disability, as those terms are defined in the Business Enterprise for Minorities, Women 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.; or
  - 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, to assist with finding appropriate Investment Advisers or other investment related professionals, or to 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 Adviser(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 Adviser, 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 \$50,000, 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.

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, especially MWDBE Investment Advisers and MWDBE Emerging 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 Advisers 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 A. 3.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 acceptance of Investment Advisers and shall be posted on the Fund's and the Investment Consultant's websites. 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 Adviser. The Board shall determine the parameters of the search, including the applicable Asset Allocation Category, whether the parameters will include the authority to make follow-on or legacy investments in successor closed-end funds, and whether the search is for an Emerging or MWDBE Manager. A search will generally not be initiated when additional assets are placed with an Investment Manager or firm that is already providing investment services in the same or substantially similar investment category.
  - b. Form and Publication. If a search is initiated, notice of the need for an Investment Adviser shall be published in any manner deemed appropriate by the Board. The Board shall publicize a Request for Proposals ("RFP"). An RFP may be publicized in a relevant trade journal or publication for at least 14 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 and the Investment Consultant's website until the deadline for responses to the RFP.
8. Search for Investment Adviser/Investment Manager. Each RFP shall be in the form specified by the Board or the Fund's Investment Staff with the guidance of the Investment Consultant and shall contain, *inter alia*, all of the following:
  - a. The applicable Asset Allocation Category.
  - b. A statement as to the amount of assets expected to be awarded and whether a follow-on investment is permitted at the Trustees' discretion.
  - c. A date by which responses to the RFP shall be returned.
  - d. The evaluation factors designated in Section D. 9 of this Policy.

- e. A copy of the Fund's Investment Policy, with notice that such Policy is subject to change.
- f. A statement that the Investment Adviser, including any passive manager, will be required to set forth its specific plan or program for complying with the letter, or in the case of a passive manager with the spirit, of the Fund's brokerage and proxy voting policies, if any (which shall be provided as part of the RFP), and its obligation to provide any required annual proxy voting report and a quarterly report on all brokerage activity.
- g. A description of the procedures for post-performance review designated in section D.16 of this Policy.
- h. A description of the "quiet period" guidelines designated in Section D.11 of this Policy and a copy of the Fund's Code of Ethics. The RFP shall note that the Investment Adviser must agree to comply with the Fund's Code of Ethics at all times.
- i. The Fund's standard Investment Manager Agreement, if applicable given the parameters of the search, shall be attached to the RFP and 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 Manager Agreement are strongly disfavored. Any objections to the Fund's standard Investment Manager Agreement must be detailed in the Investment Adviser's response to the RFP, not after a selection has been made.
- j. A requirement that the response to the RFP shall contain all required disclosures under the Illinois Pension Code (collectively "Investment Manager Disclosures") and shall include the following:
  - (i) The method for charging and measuring fees, based on the assets under management, 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 Adviser in connection with the provision of Investment Services to the Fund;
  - (ii) The names and addresses of: the Investment Adviser; any entity that is a parent of, or owns a controlling interest in, the Investment Adviser; any entity that is a subsidiary of, or in which a controlling interest is owned by, the Investment Adviser; any persons who have an ownership or distributive income share in the Investment Adviser that is in excess of 7.5%; or serves as an executive officer of the Investment Adviser. 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

(iv) the names and addresses of all subcontractors, including third party marketers or individuals that an Investment Adviser uses to market its funds, and the expected amount of money each will receive under the contract; and

(v) A disclosure of the number of the Investment Adviser's investment and senior staff and the percentage of that staff who are a minority person, a women, 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 women-owned business, a veteran owned small business, or a business owned by a person with a disability; and the number of contracts for investment, consulting, professional, and artistic services which the Investment Adviser has with a business other than a minority or women-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 women, a veteran, or a person with a disability. For the purposes of this subsection, the terms "minority person", "women", "person with a disability", "minority-owned business", "women-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, Women, 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.

k. (i) Disclosure by the Investment Adviser, by any executive officer (as defined in j. (ii.) above) of the Investment Adviser, by any parent entity, by the executive officers of any entity that is a parent of, or owns a controlling interest in the Investment Adviser, and by any shareholder of the Investment Adviser of any direct or indirect financial support of \$1,000 or more in a 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 Chicago charter school or a contract school. For purposes of this Section C.8, a “shareholder” shall mean any person who has an ownership or distributive income share in the Investment Adviser.

l. Disclosure by the Investment Adviser, by any executive officer (as defined in j. (ii.) above) or shareholder of the Investment Adviser, by any parent entity, by any executive officers of any entity that is a parent of, or owns a controlling interest in, the Investment Adviser, or by the entity itself of any financial support of \$1,000 or more in a 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.

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 Adviser 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.

m. For purposes of this Section C.8 and all required disclosures, a prospective Investment Adviser must undertake an affirmative effort to determine the appropriate responses to the required disclosures as part of the Investment Adviser’s response to the RFP. A response that the Investment Adviser has a “pay to play” or a political donation policy is not responsive. The Investment Adviser is expected to inquire of each individual subject with an ownership or distributive income share in the Investment Adviser that is in excess of 7.5%. The representations are considered material.

n. Disclosure by the Investment Adviser within five (5) business days of any material changes in the portfolio manager and of any change in ownership other than the ownership interests of employees of the Investment Adviser or within ten (10) business days of any legal actions instituted against the Investment Adviser, its parent entity, any entity that owns a controlling

interest in the Investment Adviser, or any subsidiary of the Investment Adviser 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 Advisers' next ADV filing with the SEC, which are not either conducted in the ordinary course of Investment Adviser's, its parent's, controlling entity's, or Investment Manager's subsidiaries' business or conducted as part of an industry sweep or other general fact-finding related inquiry.

- o. Disclosure by the Investment Adviser and any parent, controlling entity, subsidiary, or affiliate of any direct or indirect financial relationships, transactions, investments, investment related agreements, or investment related contracts with the Board of Education of the City of Chicago, a Chicago charter school, or a contract school entered into within the five (5) year period prior to the execution of this Agreement. Any such direct or indirect financial relationships, transactions, investments, investment related agreements, or investment related contracts with such an entity entered into on or after the execution of this Agreement shall be identified in an amended Investment Manager Disclosure within thirty (30) days of any new relationship, transaction, investment, agreement, or contract with such an entity.
  - p. The documents created as part of an RFP, including the responses by prospective Investment Advisers, 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 initially by the Fund's Investment Staff and Investment Consultant, with the assistance of the Investment Committee, based on the following evaluation factors only. 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 Manager Disclosures prior to consideration of the finalists.

The Board will select in the exercise of its discretion, based on the evaluation factors, an Investment Adviser from the list of top-qualified Investment Advisers. The evaluation factors are as follows:

- a. Investment Philosophy and Methodology, including: the clarity and technical merits on the investment process, buy/sell discipline, efficacy of



decisions made (streamlined, responsive), consistency of application, risk controls, uniqueness of the process, trading ability;

- b. Performance, including: long-term performance relative to benchmarks, risk compared to benchmarks, consistency of performance relative to peers;
- c. Firm Background, Experience, Reputation, including: the firm's experience in the management of institutional portfolios, the background and qualifications of principals and professional staff, the size of the firm and the products offered, organizational structure, manager tenure, depth of portfolio team and research team, the firm's Investment Manager Disclosures, commitment to the continued viability and funding of Illinois public sector defined benefit pension plans, the firm's history of lawsuits and regulatory actions regarding the firm's investment practices, and the firm's record of integrity and business ethics;
- d. Portfolio Management and Client Services, including: client servicing, accounting, and reporting;
- e. Reasonableness of the fees; and
- f. The Fund's overall Investment Policy and allocations among existing Investment Advisers, including, but not limited to, the diversification of Investment Advisers in terms of style, investment philosophy, and the complementary relationship between Investment Advisers in the context of the Investment Policy.

10. Emerging and MWDBE Investment Advisers

- a. Principle. The Fund does not use any criteria that would preclude an Emerging or MWDBE Investment Adviser from being included in the Investment Consultant's database, such as a minimum number of years in business or minimum assets under management. The Fund's goal is to identify highly qualified and potentially successful Emerging and MWDBE Investment Advisers that can be awarded allocations or, if the Investment Adviser is participating in a "fund of funds", to be graduated into a separate account portfolio when openings occur or a need is identified.
- b. Selection Process. Emerging and MWDBE Investment Advisers shall be selected pursuant to this Policy in a search solely for Emerging or MWDBE Investment Advisers. The purpose of having a separate search for Emerging or MWDBE Investment Advisers is to ensure that the Fund's goal of utilizing and developing Emerging and MWDBE Investment Advisers is met. Nothing in this Section prohibits an Emerging

or MWDBE Investment Adviser from participating in any search for an Investment Adviser, so long as the Investment Adviser meets the criteria set forth in the RFP. If an Emerging or MWDBE Investment Adviser meets the criteria in the RFP, then that Investment Adviser shall receive an invitation by the Board to present as a finalist. If there are multiple Emerging or MWDBE Investment Advisers that meet the criteria set forth in the RFP, then the Board may choose the most qualified firm or firms to present.

- c. Certification. The Board shall establish guidelines for determining and verifying the certifications submitted to establish an Emerging or MWDBE Investment Adviser's status as a Minority-Owned Business, Women-Owned Business, or Business Owned By A Person With A Disability, as those terms are defined in the Business Enterprise for Minorities, Women and Persons with Disabilities Act, 30 ILCS 575/2. Preference shall be given to the appropriate certification from the City of Chicago or from the State of Illinois as acceptable proof. If such certifications are not available, the Fund will accept another State's certification for a Minority-Owned Business, Women-Owned Business, or Business Owned By A Person With A Disability, as those terms are defined in the Business Enterprise for Minorities, Women and Persons with Disabilities Act, 30 ILCS 575/2.
11. Quiet Period. There shall be a quiet period to ensure that the process of selecting an Investment Adviser 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 Management Agreement.
    - b. Initiation, continuation, and conclusion of the quiet period shall be publicly communicated to help prevent inadvertent violations.
    - c. During the quiet period, all Board members and Fund Staff, to the extent practical, shall refrain from communicating with Investment Adviser candidates regarding any product or service offered by the candidate that is related to the search.
    - d. During the quiet period, no fiduciary or Fund Investment Staff, including the Investment Consultant, shall accept meals, travel, lodging, entertainment, or any other good or service of value from any candidate or from any firm that is reasonably known to be interested in being a candidate.
    - 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 Investment Consultant, Director of Investments, or

Executive Director.

- f. All authority related to the search and selection process shall be exercised solely by the Board as a whole and not by individual Board members.
  - g. While the quiet period does not prevent Board approved meetings, conference attendance, or communications with an existing Investment Adviser candidate, discussion related to the pending selection shall be avoided during those activities.
  - h. An Investment Adviser candidate may be disqualified from a search process for a willful violation of this Policy.
12. Delivery of Responses. Responses shall be submitted in accordance with the terms in the RFP.
13. Discussions
- a. The Investment Consultant, counsel for the Fund, and the Fund's Investment Staff may conduct discussions with Investment Adviser candidates to:
    - i. Determine in greater detail an Investment Adviser's qualifications and clarify any responses; and
    - ii. Negotiate the various terms of the contract, including fees.
  - b. Timing of Discussions. Discussions only for the purposes described above (with the Investment Consultant and Fund's Investment Staff) may be held before and after the responses to the RFP have been submitted.
  - c. No Disclosures of Information. The Investment Consultant, Trustees, and Fund's Investment Staff shall not disclose publically any information contained in any responses until the presentation of the Investment Consultant's recommendation at a Board meeting.
14. Award of Contract
- a. The Board shall determine the Investment Adviser(s) to be retained and the amount of assets or the percentage of the assets available for allocation to be awarded.
  - b. The Board, through its Staff and counsel, shall negotiate the final terms of the Investment Manager Agreement or the terms of any such other agreement or subscription documents as may be necessary to make the investment. The Board may, in the interest of efficiency, negotiate with

other Investment Advisers which were finalists, while negotiating with the Investment Adviser chosen. The Board's award of an investment mandate is subject to reaching a contract Agreement.

- c. Nothing in this Section shall prohibit the Board from making a selection that represents, in the Board's judgment, the best value, qualifications, fees, and other relevant factors established in the RFP as being considered.
15. Notice of Contract. The Board 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 Adviser(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 Adviser(s).
16. Post-Performance Reviews. All post performance reviews, including termination, shall be conducted in accordance with the Fund's Investment Policy.

### **History**

Revised March, 2013  
Revised October, 2013  
Revised March, 2014  
Revised August 20, 2015  
Revised June 2, 2017  
Revised July 17, 2018  
Revised November 21, 2019

### **Review**

The Board shall review this Investment Adviser Procurement Policy as appropriate.

## EXHIBIT A

### INVESTMENT ADVISERS PROCUREMENT POLICY

Alabama Policy Institute  
American Enterprise Institute American  
Legislative Exchange Council Brookings  
Institution  
California Common Sense  
California Policy Center  
Civic Committee of the Commercial Club  
Empower Texas  
Florida TaxWatch  
Goldwater Institute  
Heartland Institute  
Heritage Foundation  
Howard Jarvis Taxpayers Association  
Illinois Municipal League  
Illinois Policy Institute  
Independent Institute  
Jessie Ball DuPont Fund  
Laura and John Arnold Foundation  
Maclver Institute  
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 Right to Work Committee  
National Institute for Labor Relations Research  
Nelson Rockefeller Institute of Government  
National Taxpayers United of Illinois  
Pension Fairness for Illinois Communities  
Pioneer Institute  
R Street Institute  
Reason Foundation  
Retirement Security Foundation  
Retirement Security Initiative  
Show Me Institute  
Stanford Institute for Economic  
Policy Research (SIEPR)  
State Policy Network  
Students First  
Taxpayers for Sustainable Pensions  
Taxpayers United of America  
Teacherspensions.org  
Texas Public Policy Foundation

The Future of Freedom 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.

Date: August 15, 2019