

1 RETIREMENT BOARD OF THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
2 PROCUREMENT POLICY FOR INVESTMENT ADVISERS & CONSULTANTS

3
4 Addendum to Investment Policy - PA 096-0006 - Adopted 5/28/2009

5
6 TABLE OF CONTENTS

7	I. INTRODUCTION	2
8	II. DEFINITIONS	2
9	1. "Emerging Investment Adviser"	2
10	2. "Minority Owned Business"	2
11	3. "Business Owned By A Person With A Disability"	2
12	4. "Female Owned Business"	2
13	5. "Investment Adviser"	2
14	7. "Investment Services"	3
15	III. EXCEPTIONS	3
16	IV. COMPETITIVE SELECTION PROCEDURES	4
17	1. Uniform Documents	4
18	2. Public Notice of Competitive Selection Procedures	4
19	3. Search for Investment Adviser	4
20	4. Evaluation of Responses	5
21	V. EMERGING INVESTMENT ADVISERS	6
22	VI. QUIET PERIOD	6
23	IV. DISCUSSIONS	7
24	V. AWARD OF CONTRACT	7
25 26	VI. COMPETITIVE SELECTION PROCEDURES FOR INVESTMENT CONSULTANT	8

27 **I. INTRODUCTION**

28
29
30
31
32

The Board of Trustees ("Board") of the Policemen's Annuity and Benefit Fund of Chicago (the "Fund") establish the following Procurement Policy ("Policy") so that all decisions to procure Investment Services from an Investment Adviser will be made with respect for the principles of competitive selection, full disclosure, objective evaluation, and proper documentation.

33 **II. DEFINITIONS**

34

35 **1. "Emerging Investment Adviser"**

36
37
38
39
40

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. (PA 96-0006)

41 **2. "Minority Owned Business"**

42
43
44
45
46
47
48
49
50
51
52
53

Means a business which is at least 51% owned by one or more minority persons, or in the case of a corporation, at least 51% of the stock in which is owned by one or more minority persons; and the management and daily business operations of which are controlled by one or more of the minority individuals who own it. "Minority person" shall mean a person who is a permanent resident of the United States and who is: citizen or lawful,

- a. African American (a person having origins in any of the black racial groups in Africa);
- b. Hispanic (a person of Spanish or Portuguese culture with origins in Mexico, South or Central America, or the Caribbean Islands, regardless of race);
- c. Asian American (a person having origins in any of the original peoples of the Far East, Southeast Asia, the Indian Subcontinent or the Pacific Islands); or
- d. Native American or Alaskan Native (a person having origins in any of the original peoples of North America).

54 **3. "Business Owned By A Person With A Disability"**

55
56
57
58
59
60

Means a business that is at least 51% owned by one or more persons with a disability and the management and daily business operations of which are controlled by one or more of the persons with disabilities who own it. "Person with a Disability" means a person who is a citizen or lawful resident of the United States and is a person qualifying as being disabled. "Disabled" means a severe physical or mental disability. (30 ILCS 575/)

61 **4. "Female Owned Business"**

62
63
64
65
66
67

Means a business which is at least 51% owned by one or more females, or, in the case of a corporation, at least 51% of the stock in which is owned by one or more females; and the management and daily business operations of which are controlled by one or more of the females who own it. "Female" shall mean a person who is a citizen or lawful permanent resident of the United States and who is of the female gender. (30 ILCS 575/)

68 **5. "Investment Adviser"**

69
70
71
72
73
74
75

Means any person or 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

- 76 c. has acknowledged in writing that he or she is a fiduciary with respect to the Fund, and has received a copy of the
77 Fund's Procurement Policy
78
79 d. is at least one of the following:
80
81 i. registered as an investment adviser under the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.);
82
83 ii. registered as an investment adviser under the Illinois Securities Law of 1953;
84
85 iii. a bank, as defined in the Investment Advisers Act of 1940;
86
87 iv. an insurance company authorized to transact business in Illinois;
88
89 v. or any other such entity that may be provided for in Section 1-101.4(4) of the Illinois Pension Code, 40 ILCS 1-
90 101, et seq.
91

92 **6. "Investment Consultant"**

93
94 Means any person or entity retained by the Board to make recommendations in developing an investment policy, assist with
95 finding appropriate Investment Advisers, or monitor the Board's investments. Investment Consultant does not include non-
96 investment related professionals or professionals offering services that are not directly related to the investment of assets, such
97 as legal counsel, actuary, proxy voting services, services used to track compliance with legal standards, and investment fund of
98 funds where the Board has no direct contractual relationship with the Investment Adviser(s).
99

100 **7. "Investment Services"**

101 Means services to be provided by an Investment Adviser in an Asset Allocation Category.

102 The following asset allocation categories shall be subject to this Policy:

- 103
104
105
106 a. equity;
107
108 b. fixed income;
109
110 c. alternative investments;
111
112 d. other such Investment Services as the Trustees may determine.
113

114 **III. EXCEPTIONS**

- 115
116 1. sole source procurements;
117 2. emergency procurements; and
118 3. at the discretion of the Board, contracts
119 a. that are for a nonrenewable, and
120 b. term of one year or less in duration,
121 c. so long as the contracts have a value of less than \$20,000
122

123 All exceptions granted shall be published on the Fund's web site, shall name the person authorizing the procurement, and shall
124 include a brief explanation of the reason for the exception.
125

126 **IV. COMPETITIVE SELECTION PROCEDURES**

127
128
129
130

This Policy applies to every procurement of Investment Services to be provided by an Investment Adviser outside those described under subsection III. Exception.

131 **1. Uniform Documents**

132
133
134
135
136

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, 40 ILCS 5/1-101, et seq.

137 **2. Public Notice of Competitive Selection Procedures**

138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157

a. Public Notice.

- i. The Board shall determine when there shall be a search for an Investment Adviser.
- ii. The Board shall determine the parameters of the search, including the applicable Asset Allocation Category and whether the search is for an Emerging Investment Adviser
- iii. Notice of the need for an Investment Adviser shall be determined by the Board at an open meeting.

b. Form and Publication.

- i. Notice of the need for an Investment Adviser shall be published by the Board and the Investment Consultant in the form of a Search for Investment Adviser ("SIA").
- ii. A SIA may be publicized in a relevant trade journal or publication at least 30 days prior to the return date established in the SIA.
- iii. Public Availability. A copy of each SIA shall be made available for public inspection on the Fund's website.

158 **3. Search for Investment Adviser**

159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177

Each SIA shall be in the form specified by the Board or 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.
- c. a date by which responses to the SIA shall be returned.
- d. the evaluation factors designated in 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, in its response to the SIA, will be required to set forth its specific plan or program for complying with the Fund's brokerage and proxy voting policy or policies, if any, (which shall be provided as part of the SIA), including an annual proxy voting report and a quarterly report on all brokerage activity.
- g. a description of the procedures for post performance review designated in this Policy.

- 178 h. a description of the “quiet period” guidelines designated in this Policy and a copy of the Fund’s Ethics Policy/Code of
179 Conduct.
180
- 181 i. the Fund’s standard investment manager agreement, if applicable given the parameters of the search, which shall be
182 attached to the SIA and which shall include, inter alia:
183
- 184 i. the requirements set forth in Section 1-113.14(c) of the Illinois Pension Code, 40 ILCS 5/1-101, et seq.
185
- 186 ii. The SIA shall note that amendments to the Fund’s standard investment manager agreement are disfavored.
187
- 188 iii. Any objections to the Fund’s standard investment manager agreement shall be detailed in the Investment
189 Adviser’s response to the SIA.
190
- 191 j. a requirement that the response to the SIA shall contain all required disclosures under the Illinois Pension Code and
192 shall include the following:
193
- 194 i. the method for charging and measuring fees, including performance based fees, based on the assets under
195 management, including disclosure of the direct and indirect fees, commissions, penalties, and other
196 compensation, including reimbursement for expenses, that may be paid by or on behalf of the Investment Adviser
197 in connection with the provision of Investment Services to the Fund;
198
- 199 ii. the names and addresses of: the Investment Adviser; any entity that is a parent of, or owns a controlling interest
200 in, the Investment Adviser; any entity that is a subsidiary of, or in which a controlling interest is owned by, the
201 Investment Adviser; any persons who have an ownership or distributive income share in the Investment Adviser
202 that is in excess of 7.5%; or serves as an executive officer of the Investment Adviser; and
203
- 204 iii. the names and addresses of all subcontractors, if any, and the expected amount of money each will receive under
205 the contract¹.
206
- 207 k. A statement that contingent and placement fees are prohibited.
208

209 All documents created as part of a SIA, including the responses by prospective Investment Advisers, shall be considered public
210 records and shall be made available for inspection and copying as provided in Section 3 of the Illinois Freedom of Information
211 Act, 5 ILCS 140/1, et seq.
212

213 Delivery of Responses: Responses shall be submitted to the Investment Consultant and or Staff in accordance with the terms
214 defined by the Fund in the SIA.
215

216 4. Evaluation of Responses 217

218 Responses will be evaluated initially by the Investment Consultant and or staff based on the following evaluation factors. The
219 relative importance of the evaluation factors will vary based on the parameters of the search. The Investment Consultant will
220 determine, based on the evaluation factors, the top-qualified Investment Advisers and the disqualified Investment Advisers, if
221 any, and state in writing the reasons for top-qualification and disqualification. The Board will select, based on the evaluation
222 factors used in its manager selection policy guidelines, the finalist from the list of top-qualified Investment Advisers. The
223 evaluation factors are as follows:
224

- 225 a. Organization. Firm’s background, experience, and reputation, including: the firm’s experience in the management of
226 institutional portfolios, the background and qualifications of principals and professional staff, the size of the firm and the

¹ For purposes of this Subsection, “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.

- 227 products offered, manager tenure, depth of portfolio team and research team, firm's reputation including any litigation
228 history and its record of integrity and business ethics;
229
- 230 b. Philosophy, methodology and Process, including: the clarity and technical merits of the investment process, buy/sell
231 discipline, efficacy of decisions made (streamlined, responsive), uniqueness of the process, trading ability;
232
- 233 c. Performance and risk, including: long-term performance relative to benchmark, risk compared to benchmark,
234 consistency of performance relative to benchmark, long-term performance relative to peers;
235
- 236 d. Portfolio management and client services, including: client servicing, and accounting and reporting;
237
- 238 e. Product
239
- 240 f. Compliance
241
- 242 g. Completeness and quality of proposal
243
- 244 h. The Fund's overall Investment Policy and allocations among existing Investment Advisers, including, but not limited to:
245 the diversification of Investment Advisers in terms of style, investment philosophy, and the complementary relationship
246 between Investment Advisers in the context of the Investment Policy, and;
247
- 248 i. Reasonableness of the Fees;
249

250 **V. EMERGING INVESTMENT ADVISERS**

- 251
- 252 a. Principle. The Fund does not use any criteria that would preclude an Emerging Investment Adviser from being included
253 in the Investment Consultant's database, such as a minimum number of years in business or minimum assets under
254 management. As part of the selection process, the Fund utilizes broad-based databases to ensure that qualified
255 Emerging Investment Advisers are included in the pool of eligible candidates. The Fund's goal is to identify highly
256 qualified and potentially successful Emerging Investment Advisers that can be awarded allocations or, if the Emerging
257 Investment Adviser is participating in a "fund of funds", to be "graduated" into a separate account portfolio when
258 openings occur or a need is identified.
259
- 260 b. Selection Process. Emerging Investment Advisers shall be addressed pursuant to the Investment Policy guidelines in a
261 search policy which does not preclude the Fund from authorizing a specific search for Emerging Investment Advisers.
262 The purpose of having a separate search for Emerging Investment Advisers may be to ensure that Fund's goal of
263 utilizing and developing Emerging Investment Advisers is met. Nothing in this Section prohibits an Emerging
264 Investment Adviser from participating in a SIA, so long as the Emerging Investment Adviser meets the criteria set forth
265 in the SIA. If an Emerging Investment Adviser meets the criteria in the SIA, then that Emerging Investment Adviser
266 shall receive an invitation by the Board to present as a finalist. If there are multiple Emerging Investment Advisers that
267 meet the criteria set forth in Investment Adviser the SIA, then the Investment Consultant, staff or Board may choose
268 the most qualified firm or firms to present to the Board.
269
- 270 c. The Board will accept the appropriate certificate from the City of Chicago or from the State of Illinois which shall be
271 acceptable proof for determining and verifying the certifications submitted to establish the Investment Adviser's status
272 as a Minority Owned Business, Female Owned Business, or Business Owned By A Person With A Disability.
273

274 **VI. QUIET PERIOD**

- 275
- 276 a. There shall be a quiet period to ensure that: prospective Investment Advisers have equal access to information
277 regarding the search parameters; communications related to the selection are consistent and accurate; and the
278 process of selecting an Investment Adviser is efficient, diligent and fair.

- 279
280
281
282
283
284
285
286
287
288
289
290
291
292
293
294
295
296
297
298
299
300
301
302
303
304
305
306
- b. During the quiet period, all Trustees shall refrain from communicating with Investment Adviser candidates regarding any product or service related to the search offered by the candidate.
 - c. The quiet period shall commence upon the date the SIA is issued and end when a contract is reached with the Investment Adviser under the procedures adopted by the Board for manager selection.
 - d. The Board, cognizant of its overriding fiduciary obligation, maintains a quiet period while publicly traded assets are transitioned to newly hired portfolio managers to protect the assets of the fund from market impact at transition.
 - e. Initiation, continuation and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations;
 - f. During the quiet period, all fiduciaries, including the Investment Consultant, shall not accept meals, travel, lodging, entertainment or any other good or service of value from the candidates.
 - g. If any Trustee is contacted by a candidate during the quiet period, the Trustee shall refrain from comment and immediately refer the candidate to the Investment Consultant or Staff.
 - h. All authority related to the search process shall be exercised solely by the Board as a whole, and not by individual Trustees.
 - i. While the quiet period does not prevent Board approved due diligence meetings, conference attendance or communications with an existing Investment Adviser that is also an Investment Adviser candidate, discussion related to the pending selection shall be avoided during those activities.
 - j. An Investment Adviser candidate may be disqualified from a search process for a knowing violation of this Policy.

307 **iv. DISCUSSIONS**

- 308
309
310
311
312
313
314
315
316
317
318
319
320
321
322
- a. The Investment Consultant and staff may conduct discussions to:
 - i. determine in greater detail an Investment Adviser's qualifications; and
 - ii. negotiate the various terms of the contract, including fees, in accordance with the Fund's manager selection policy.
 - b. Timing of Discussions. Discussions with the Investment Consultant and staff may be performed before and after the responses to the SIA have been submitted.
 - c. No Disclosure of Information. The Investment Consultant and staff shall not disclose publically any information contained in any responses until the presentation of the Investment Consultant's recommendations at a Board meeting.

323 **v. AWARD OF CONTRACT**

- 324
325
326
327
- 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 in accordance with the Fund's investment manager selection policy.

- 328 b. The Board and its agents shall negotiate the final terms of the investment manager agreement or the terms of such
329 other agreement or subscription documents as may be necessary to make the investment².
330
- 331 c. The Board may, in the interest of efficiency, negotiate with other Investment Advisers which were finalists, while
332 negotiating with the Investment Adviser chosen.
333
- 334 d. Nothing in this Section shall prohibit the Board from making a selection that represents the best value based on
335 qualifications, fees and other relevant factors established in the SIAs being considered.
336
- 337 e. Notice of Contract. The Board's decision, once executed, shall be public information and shall be posted on the Fund's
338 website. Such notice shall include:
339
- 340 i. the name of the successful Investment Adviser,
341
- 342 ii. the total amount applicable to the contract,
343
- 344 iii. A description of the service to be performed
345
- 346 iv. the basis for determining the total fees, including any performance based fees, to be paid, and
347
- 348 v. a disclosure approved by the Board describing the factors that contributed to the selection of the Investment
349 Adviser.
350
- 351 f. Post Performance Review. All post performance review, including termination, shall be conducted in accordance with
352 the Fund's Investment Policy.
353

354 **vi. COMPETITIVE SELECTION PROCEDURES FOR INVESTMENT CONSULTANT**
355

356 The search process for a Consultant shall be a competitive proposal process and shall generally follow the guidelines listed
357 below:
358

- 359 a. The Fund shall not enter into a contract with a Consultant that exceeds 5 years in duration.
360
- 361 b. No contract to provide consulting services may be renewed or extended.
362
- 363 c. At the end of the term of a contract, the Consultant is eligible to compete for a new contract as provided in this section.
364
- 365 d. Advertisements for the search process shall be placed on the Fund's website and in an industry publication at least 14
366 business days before the response to the offer is due.
367
- 368 e. Uniform documents shall be used for the solicitation, review, and acceptance of investment services and will be posted
369 on the Fund's website. Documents may differ based on the specific search mandate.
370
- 371 f. All interested respondents shall return their responses to Fund staff, which shall open and record them, providing a list
372 of all respondents to the Board of Trustees.
373
- 374 g. Following review and evaluation of the responses from interested firms, the field of candidates is narrowed by the
375 trustees to a smaller list of the most highly qualified firms.

² The Fund will attempt to negotiate a fair agreement and reasonable fee structure with the awarded Bidder(s). If we are unable to, we reserve the right to award and negotiate with the next most qualified Bidder. The Fund shall consider the offer, including the Bidder's qualifications, reputation, all fees submitted, other known fees, and other relevant factors, in negotiating a fair agreement and reasonable fee structure.

376
377
378
379
380
381
382
383
384
385
386
387

- h. From the smaller list, the Trustees will select one or more of the Consultants for presentations before the Board to present their firms qualifications.
- i. The Board will make the final decision.
- j. Contracts are then completed with the selected firm(s).
- k. The Fund shall post the name(s) of the successful respondent(s) on the Fund 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.