

# METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

## PROCUREMENT POLICY FOR INVESTMENT CONSULTANTS

### A. Introduction

The Board of Trustees (“Board”) of the Metropolitan Water Reclamation District Retirement Fund (“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.

### B. Definitions

1. “Emerging Investment Adviser” 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, 30 ILCS 575/0.01, et seq.
2. “Investment Adviser” or “Investment Manager” 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;
  - c. Has acknowledged in writing that he or she 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. Manages 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.
  3. “Investment Consultant” means any person or 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.
  4. “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;
    - b. Equity;
    - c. Cash management;
    - d. Alternative investments through a “fund of funds” or on a direct basis;
    - e. Private equity;
    - f. Real estate: domestic and international;
    - g. International equity and fixed income; and
    - h. Other such Investment Services as the Trustees may determine.
- C. 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 that are for a nonrenewable term of one year or less.

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

D. Competitive Selection Procedures

1. 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.
2. 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. Notice of the need for an Investment Consultant shall be determined by the Board at an open meeting.
  - b. Form and Publication. Notice of the need for an Investment Consultant shall be published by the Board in the form of a Search for Investment Consultant (“SIC”). An SIC may be publicized in a relevant trade journal or publication at least 30 days prior to the return date established in the SIC.
  - c. Public Availability. A copy of each SIC shall be made available for public inspection on the Fund’s website.
3. Search for Investment Consultant. Each SIC shall be in the form specified by the Board 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.4 of this Policy.
  - d. A copy of the Fund’s current Investment Policy.
  - 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.5 of this Policy and a copy of the Fund’s Ethics Resolution. The SIC shall note that the Investment Consultant must agree to comply with the Fund’s Ethics Resolution at all times.
- g. The Fund’s standard Investment Consultant Agreement, which shall be attached to the SIC and which shall include, *inter alia*, the requirements set forth in Section 1-113.14(c) of the Illinois Pension Code. The SIC 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 SIC.
- h. A requirement that the response to the SIC shall contain all required disclosures under the Illinois Pension Code 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; and
  - iii. A statement that contingent and placement fees are prohibited and the names and addresses of all subcontractors, including third-party marketers, if any, and the expected amount of money each will receive under the contract.

All documents created as part of an SIC, 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.*

- 4. Evaluation of Responses to SIC. Responses will be evaluated by the Board based on the following evaluation factors only. The relative importance of the evaluation factors will vary based on the parameters of the search. 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 strength of the firm’s internal Ethics and Conflicts of Interest Policies, including the prohibition on the receipt of any fees, compensation or commission of any kind relating to the services to be provided.
- g. The firm’s process for the search and selection of Investment Advisers and Emerging Investment Advisers, including:
  - i. A description of the database(s) used to track and evaluate Investment Advisers and Emerging Investment Advisers, including: the number of Investment Advisers and Emerging 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 to access the database;
  - ii. A specific description of the firm’s policy for increasing access by and outreach to Emerging 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.
5. Quiet Period. There shall be a quiet period to ensure that the process of selecting an Investment Consultant is efficient, diligent and fair.
    - a. The quiet period shall commence upon the deadline for the responses to the SIC and end when the selection has been made by the Board.
    - b. Initiation, continuation and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations. During the quiet period, contacts with Investment Consultant candidates shall be conducted only through the Executive Director.
    - c. During the quiet period, no fiduciary 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. While the quiet period does not prevent Board approved meetings or communications with an existing Investment Consultant that is also an Investment Consultant candidate, discussion related to the pending selection should be avoided during those activities.
    - f. An Investment Consultant candidate may be disqualified from a search process for a willful material violation of this Policy.
  6. Delivery of Responses. Responses shall be submitted to the Executive Director in accordance with the terms in the SIC.
  7. Discussions
    - a. Notwithstanding the quiet period provided for in Section D.5 of this Policy, the Board through the Executive Director 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 contract, including fees.

- b. **Timing of Discussions.** Discussions with the designated Trustee, Executive Director and staff may be held before and after the responses to the SIC have been submitted.
  - c. **No Disclosure of Information.** The Trustees, Executive Director and staff shall not disclose publically any information contained in any responses until the presentation of the finalists at a Board meeting.
8. **Award of Contract**
- a. The Board shall determine the Investment Consultant(s) to be retained.
  - b. The Board through its designated Trustee, Executive Director, 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 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.
9. **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).