

*INVESTMENT PROCUREMENT  
POLICY*



Amended: June 5, 2020

## ***1. Introduction***

This policy addresses the general procedures of the State Universities Retirement System (“SURS”) in soliciting bids and surveying the market for Investment Services (the “Policy”). The selection and appointment of firms to provide Investment Services shall be made and awarded in accordance with the Illinois Pension Code (the “Code”) and all other relevant authority under the Illinois Compiled Statutes.

## ***2. Definitions***

“Board” means the Board of Trustees of SURS.

“Consultant” means any person or entity retained or employed by the Board to make recommendations in developing an investment strategy, assist with finding appropriate investment advisers or monitor the Board’s investments. “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 in fund of funds where the Board has no direct contractual relationship with the investment advisers or partnerships. A Consultant must be registered as an investment adviser under the federal Investment Advisers Act of 1940 or as a bank, as defined in the federal Investment Advisers Act of 1940. Included in the definition of a Consultant is a “Specialty Consultant”. A “Specialty Consultant” means a Consultant selected by the Board pursuant to a Request for Proposal (“RFP”) process that specializes in one or more investment areas of expertise. Also included in the definition of a Consultant is a “General Investment Consultant”. A “General Investment Consultant” means a Consultant selected by the Board pursuant to a RFP process to provide general investment consulting services, including investment manager search and selection, among other things.

“Chief Procurement Officer” is an individual designated by SURS to oversee and monitor the procurement process consistent with the requirements of this Policy, the Code and all other relevant authority under the Illinois Compiled Statutes.

“Expenditure” means any investment, expense, or cost relating to Investment Services.

“Investment Adviser” is any person or firm who: (1) is a fiduciary appointed by the Board in accordance with Section 1-109.1 of the Code; (2) has the power to manage, acquire or dispose of any asset of SURS; (3) has acknowledged in writing that he or she is a fiduciary with respect to SURS; (4) is registered as an investment adviser under the federal Investment Advisers Act of 1940 or as a bank, as defined in the federal Investment Advisers Act of 1940.

“Investment Services” means services provided by an Investment Adviser or a Consultant pursuant to Section 1-113.14 of the Code.

“Opportunistic Investment” means an investment opportunity resulting from dramatic market mispricing due to atypical external forces, which is time-sensitive in nature and would be expected

to produce either: 1) risk-adjusted investment returns exceeding those found in more typical market environments or 2) enhanced downside protection of SURS assets.

**“Quiet Period”** means a period of time during which a RFP for a potential Consultant, custodian, Investment Adviser or vendor is underway and during which a set of guidelines governs any communication by the Board, Consultant or Staff with such parties.

### ***3. Applicability of RFP Procedures***

The RFP procedures in this Policy apply to all Expenditures, including but not limited to, hiring of Consultants, Investment Advisers, custodians, proxy voting service providers and defined contribution service providers other than (i) sole source procurements (ii) emergency procurements, and (iii) at the discretion of the Board, contracts that are nonrenewable and one year or less in duration, so long as the contract has a value of less than \$20,000. All exceptions granted under this section must be published on the SURS web site, shall name the person authorizing the procurement, and shall include a brief explanation of the reason for the exception.

Unless specifically waived by the Board, effective July 1, 2018, the following Expenditures shall be subject to this Policy as proscribed below:

- i. fund-of-funds investments shall be subject to the procurement requirements of this Policy at least once every five years; and
- ii. follow-on funds that are managed in distinct entities from prior investments shall be subject to the procurement requirements of this Policy. For the avoidance of doubt, any follow-on fund recommended by a Specialty Consultant shall be subject to Section 6 of this Policy.

### ***4. Procurement Procedures and Schedule***

The following are the general procurement actions that shall be taken by SURS when considering Expenditures. SURS shall develop and use uniform documents for the solicitation, review and acceptances of all Investment Services. References to actions by the Staff in this Policy shall mean the Staff in consultation with any applicable Consultant retained by SURS.

- a. Staff is authorized to issue RFPs as necessary to implement, or maintain, the strategic policy targets established by the Board.
- b. Staff is expected to consult with third parties and potential respondents prior to the proposed RFP as necessary to address any inquiries and encourage participation in the procurement process. Members of the Board may communicate with third parties and potential respondents consistent with applicable law and applicable policy.
- c. Following initial due diligence, Staff shall prepare the RFP for the Expenditure. The RFP shall contain all information statutorily required, as well as such information as necessary

for, or related to, any potential Expenditure. Staff shall provide the Investment Committee with a tentative time-line for all actions relating to the RFP. Such time-line shall include, but not be limited to, the RFP issuance date, the date all responses are due and the date of the expected final decision. The Quiet Period is initiated with the issuance of an RFP.

- d. At a minimum, Staff shall post the RFP on the SURS website, advertise the RFP in a nationally circulated investment publication and any other publication deemed appropriate by Staff or as required by law. Staff may: (i) contact potential respondents in order to notify them of the issuance of the RFP and (ii) disseminate such RFP to potential respondents.
- e. The deadline for submission of proposals shall be not less than fourteen (14) days following the posting of the RFP. RFP responses received by the deadline stated in the RFP shall be recorded and receipted by Staff. Staff shall review and analyze the responses to the RFP as expeditiously as reasonably practical within the RFP specifications. Staff shall verify information submitted and resolve or confirm any discrepancies. Staff will eliminate any response that fails to conform to the minimum qualifications outlined in the RFP. Staff will periodically throughout the procurement process provide an update with respect to the RFP process and include such report in Investment Committee materials.
- f. Staff and/or Consultants shall meet or conduct phone interviews with representatives of the respondents selected as semi-finalists by Staff and/or Consultants to obtain an independent assessment of the firm's capabilities.
- g. Following the interview process, Staff and/or Consultants shall identify qualified firms to recommend to the Investment Committee for possible engagement by the Board. If in any case an "emerging investment manager" (as such term is defined in the Code) submits a RFP response that meets the requirements for a specific search then the "emerging investment manager" shall receive an invitation to present to the Investment Committee/Board. In the case where multiple "emerging investment managers" meet the criteria of the search, the most qualified firm or firms shall be selected to present to the Investment Committee/Board.
- h. Following Staff's and/or Consultant's recommendation, the Investment Committee shall interview the respondents recommended or direct that additional respondents be invited for interview. The Investment Committee shall approve a recommendation to the Board for selection of a respondent for the Expenditure. The Investment Committee may, in good faith, decline to recommend any respondent following such interviews. The Investment Committee may recommend a recommencement of the RFP process for such potential Expenditure, or terminate the search entirely.
- i. The Board may approve or disapprove the recommendation of the Investment Committee with respect to any proposed Expenditure.
- j. Staff and/or Consultants shall, in conjunction with its legal counsel, negotiate the contract with the approved respondent. If required by the Code, such contract must at a minimum

contain the specific requirements found in Section 1-113.14 of the Code. Staff shall promptly provide a report to the Investment Committee in the event Staff is unable to negotiate contract terms with the approved respondent that meet the requirements of the Code. The Quiet Period concludes with the completion of successful contract negotiations.

- k. SURS shall post the name(s) of the successful respondent(s) on SURS' web site, 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 respondent consistent with the requirements of the Code.

## **5. *Other RFP Requirements***

- a. The RFP process shall comply with all relevant sections of State and Federal law, including the Code and applicable case law.
- b. Fees are an important factor when evaluating procurement for Investment Services and will be given full consideration in the procurement process. If a recommended RFP respondent's fees are materially different from other respondents presenting to the Investment Committee, Staff will include the rationale for considering the higher cost option in supporting materials provided to the Investment Committee.
- c. SURS shall not enter into a contract with a Consultant that exceeds five (5) years in duration. No contract to provide consulting services may be renewed or extended. At the end of the term of a contract, however, the Consultant is eligible to compete for a new contract as permitted in the Code.
- d. Any report, documentation, or list compiled or received by Staff or a Consultant relating to a RFP or Expenditure shall be promptly made available to the Board upon request.
- e. Nothing in this Policy is meant to prohibit or discourage any Board Member from being involved in any part of the procurement process; provided that such Board Member provides prior notice of his/her intent to participate to Staff in order to ensure such participation is in compliance with applicable law. It is expected that Staff and consultants shall each provide independent recommendations to the Board regarding all such procurements.
- f. No Board member, SURS employee or SURS vendor shall knowingly cause or advise the Board to engage in an investment transaction with a vendor when the Board member, SURS employee, SURS consultant or any of their spouses (i) has any direct interest in the income, gains or profits of the investment vendor through which the investment transaction is made or (ii) has a relationship with that investment vendor that would result in a pecuniary benefit to the Board member, SURS employee or SURS vendor or any of their spouses as a result of the investment transaction. References to the "investment vendor" include an employee or agent of such firm who has greater than 7.5% ownership of the consulting firm.

g. Quiet Period Policy

1. A Quiet Period will commence upon issuance of an RFP and end once a selection has been made by the Board and the completion of successful contract negotiations with a respondent;
2. Initiation, continuation and conclusion of the Quiet Period shall be publicly communicated to prevent inadvertent violations;
3. All Board members, and Staff other than those directly involved in the search or the Chief Procurement Officer or their designee, shall refrain from communicating with respondents regarding any product or service related to the search in process. All Board members and Staff shall refrain from accepting meals, travel, hotel, or other value from such respondents;
4. Throughout the Quiet Period, if any Board member is contacted by a respondent, the Board member shall refer such party to the Chief Procurement Officer;
5. All authority related to the search process shall be exercised solely by the Investment Committee or Board as a whole, and not by individual Board members;
6. The Quiet Period does not prevent Board approved due diligence, client conference attendance or communications with an existing vendor; provided, however, that discussions related to the procurement and pending selection shall be avoided during those activities;
7. The provisions of this Policy shall apply throughout the Quiet Period and shall be communicated to respondents in conjunction with any search; and
8. A respondent may be disqualified from a search process for a violation of the Quiet Period or any portion of this Policy.

**6. Procurement Requirements for Opportunistic Investments**

The Board will not be required to fulfill the RFP procurement requirements of this Policy for Opportunistic Investments as defined at Section 2 of this Policy, if the requirements of this Section 6 are complied with.

The following are the general procurement requirements for an Opportunistic Investment recommended by any Investment Consultant hired by the Board; provided, however that any procurement or due diligence requirement in the contract between such Investment Consultant and the Board and any specific directive from the Board to such Consultant regarding a proposed Opportunistic Investment takes precedence over the general requirements of this Section.

- a. In recommending any Opportunistic Investment to the Investment Committee/Board for consideration, the Investment Consultant shall develop and utilize a consistent and uniform competitive process for analyzing and vetting potential opportunistic investments that shall be substantially similar to the competitive process outlined in Article 35 of the Illinois Procurement Code, if required by the Code.
- b. The Investment Consultant shall ensure that any potential Opportunistic Investment and its terms are in compliance with the Code and any applicable law, regulation or directive of the Board, including SURS' Investment Policy and approved asset allocation.

- c. The Investment Consultant shall conduct such competitive process in a transparent and streamlined manner to ensure potential Opportunistic Investments are recommended to the Board in a timely manner.
- d. In recommending any Opportunistic Investment to the Investment Committee/Board, the Investment Consultant shall prepare a detailed report for the Investment Committee/Board outlining the utilized competitive process and its due diligence of the potential investment. As part of the recommendation process the Investment Consultant and Staff will secure and review all statutorily required disclosures and provide those disclosures to the Investment Committee/Board for consideration prior to taking action on the recommendation.

### ***7. Procurement Requirements for Recommendations by a Specialty Consultant***

The Board will not be required to fulfill the RFP procurement requirements of this Policy for a follow-on fund or any investment if the follow-on fund or investment is specifically recommended by a Specialty Consultant and if such Specialty Consultant has adhered to the procurement requirements specifically outlined in this Policy for a Specialty Consultant in formulating the recommendation.

The following are the general procurement requirements for any investment recommended by a Specialty Consultant; provided, however that any procurement or due diligence requirement in the contract between such Specialty Consultant and the Board regarding a proposed investment takes precedence over the general requirements of this Section.

- a. In recommending any investment to the Investment Committee/Board for consideration, the Specialty Consultant shall develop and utilize a consistent and uniform competitive process for analyzing and vetting potential investments that shall be substantially similar to the competitive process outlined in Article 35 of the Illinois Procurement Code, if required by the Code.
- b. The Specialty Consultant shall ensure that any potential investment and its terms are in compliance with the Code and any applicable law, regulation or directive of the Board, including SURS' Investment Policy and approved asset allocation.
- c. The Specialty Consultant shall conduct such competitive process in a transparent and streamlined manner to ensure the Specialty Consultant is recommending potential investments to the Board in a timely manner.
  - i. If in any case an "emerging investment manager" (as such term is defined in the Code) submits a response that meets the requirements for a specific search then the "emerging investment manager" shall receive an invitation to present to the Investment Committee/Board. In the case where multiple "emerging investment managers" meet the criteria of the search, the most qualified firm or firms shall be selected to present to the Investment Committee/Board.

- d. In recommending any investment to the Investment Committee/Board, the Specialty Consultant shall prepare a detailed report for the Investment Committee/Board outlining the utilized competitive process and its due diligence of the potential investment. As part of the recommendation process the Specialty Consultant and Staff will secure and review all statutorily required disclosures and provide those disclosures to the Investment Committee/Board for consideration prior to taking action on the recommendation. The Specialty Consultant can recommend a follow-on fund commitment. The General Partner of any follow-on fund previously recommended by the Specialty Consultant and approved by the Board will not be required to present to the Investment Committee.
- e. The Specialty Consultant should endeavor to recommend one or more qualified firms to the Investment Committee/Board on a quarterly basis, if consistent with SURS' Investment Policy, asset class pacing plan and approved asset allocation.

Initially adopted March 9, 2018

Revised: March 8, 2019, September 13, 2019, June 5, 2020