

METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND
PROCUREMENT POLICY FOR INVESTMENT ADVISERS

Adopted: May 27, 2009

Revised: February 25, 2015

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 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.

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 which 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. “MWDBE Investment Manager” means a qualified Investment Adviser that manages an investment portfolio 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.
3. “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 a limited liability corporation, limited liability partnership, commingled investment fund, collective investment fund, or such other similar investment vehicle.
- 4. “Investment Consultant” means any person or entity retained by the Board to make recommendations in developing an investment strategy, 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.
- 5. Investment Services
 - a. Definition. “Investment Services” means services to be provided by an Investment Adviser in an Asset Allocation Category.
 - b. Asset Allocation Categories. The following asset allocation categories shall be subject to this Policy:
 - i. Fixed income;
 - ii. Equity;
 - iii. Cash management;
 - iv. Alternative investments through a “fund of funds” or on a direct basis;
 - v. Private equity;
 - vi. Real estate: domestic and international;
 - vii. International equity and fixed income; and

viii. Other such Investment Services as the Trustees may determine.

C. Application of Competitive Selection Procedures. This Policy applies to every 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 \$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. Prescreening. The Investment Consultant shall, with the guidance of the Fund’s Trustees and staff, maintain a list of prescreened and investment search eligible (“prescreened”) Investment Advisers as follows:
 - a. 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 require data on a uniform basis and shall post uniform prescreening documents on the Investment Consultant’s website.
 - b. The Investment Consultant shall, with the guidance of the Fund’s Trustees and staff, encourage broad based participation by all Investment Advisers in submitting data to the Investment Consultant, including but not limited to participating in industry forums established to introduce Emerging Investment Advisers and other such outreach programs. In addition, the Investment Consultant will have an open door policy for interviewing and visiting with all Investment Advisers appropriate for the Investment Consultant’s scope of engagement, including Emerging and MWDBE Investment Advisers. The prescreening process will include but not be limited to the following:
 - i. Determination that the Investment Adviser meets the minimum objective requirements for future consideration in a prospective Search for Investment Adviser/Investment Manager (“SIA”) or that the Investment Adviser understands the requirements that are not met and how to achieve them.

- ii. Investment Advisers should be instructed about how to use the resources of the Investment Consultant to realize their goals to increase their access to new business opportunities.
- c. Prospective Investment Advisers may amend statements of qualifications at any time by filing a new statement.
- d. Failure to prescreen with an Investment Consultant may disqualify an Investment Adviser from any search for Investment Services.
- e. When prescreening, the Investment Consultant may, with the guidance of the Fund’s Trustees and staff, consider factors reasonably tailored to the specific Asset Allocation Category. Any prescreening shall require a prospective Investment Adviser to meet the requirements of Section B.3.d of this Policy, or have an application pending to meet such requirements.

The Board may also elect to subscribe to a proprietary database(s) which lists Investment Advisers for the purpose of identifying potential Investment Advisers for prescreening.

- 2. 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.
- 3. 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 and whether the search is for an Emerging or MWDBE Investment Adviser. Notice of the need for an Investment Adviser shall be determined by the Board at an open meeting.
 - b. Form and Publication. Notice of the need for an Investment Adviser shall be published by the Board and the Investment Consultant in the form of an SIA. An SIA may, in the Board’s discretion, be publicized in a relevant trade journal or publication at least 30 days prior to the return date established in the SIA.
 - c. Public Availability. A copy of each SIA shall be made available for public inspection on the Fund’s and the Investment Consultant’s website.
- 4. Search for Investment Adviser/Investment Manager. Each SIA shall be in the form specified by the Board, or the Investment Consultant with the guidance of the Fund’s staff, 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 Section D.5 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, 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 Section D.12 of this Policy.
- h. A description of the “quiet period” guidelines designated in Section D.7 of this Policy and a copy of the Fund’s Ethics Resolution. The SIA shall note that the Investment Adviser must agree to comply with the Fund’s Ethics Resolution at all times.
- i. The Fund’s standard Investment Manager Agreement, if applicable given the parameters of the search, which shall be attached to the SIA and which shall include, inter alia, the requirements set forth in Section 1-113.14(c) of the Illinois Pension Code. The SIA shall note that amendments to the Fund’s standard Investment Manager Agreement are disfavored. Any objections to the Fund’s standard Investment Manager Agreement shall be detailed in the Investment Adviser’s response to the SIA.
- j. A requirement that the response to the SIA shall contain all required disclosures under the Illinois Pension Code 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; and

- iii. A statement that contingent and placement fees are prohibited and the names and addresses of any 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.
- iv. 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 female, 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 female owned business, a veteran owned small business, or a business owned by a person with a disability; the number of contracts for investment, consulting, professional, and artistic services which the Investment Adviser has with a business other than a minority or female 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 female, or a person with a disability. For the purposes of this subsection, the terms "minority person", "female", "person with a disability", "minority owned business", "female 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, Females, and Persons with Disabilities Act. For the purposes of this subsection, the terms "veteran" and "veteran owned small business" have the same meanings 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.

All documents created as part of an SIA, 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.

- 5. Evaluation of Responses to SIA. Responses will be evaluated initially by the Investment Consultant based on the following evaluation factors only. The

relative importance of the evaluation factors will vary based on the parameters of the search. The Investment Consultant will determine, based on the evaluation factors, the top-qualified Investment Advisers and the non-finalist Investment Advisers, if any, and state in writing the reasons for top-qualification and the reasons an Investment Adviser was not a finalist. The Board will select, 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 of 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 benchmark, risk compared to benchmark, consistency of performance relative to benchmark, long-term 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, firm's reputation including any litigation history and record of integrity and business ethics;
 - d. Portfolio Management and Client Services, including: client servicing, and 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.
6. 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 Investment Adviser search database, such as a minimum number of years in business or minimum assets under management. As part of the selection process, the Fund utilizes broad-based databases to ensure that qualified Emerging and MWDBE Investment Advisers are included in the pool of eligible candidates for every SIA. The Fund's goal is to identify highly qualified and potentially successful Emerging and MWDBE Investment Advisers that can be awarded allocations.

- 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 an SIA, so long as the Investment Adviser meets the criteria set forth in the SIA. If an Emerging or MWDBE Investment Adviser meets the criteria in the SIA, 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 SIA, then the Board may choose the most qualified firm or firms to present. The Board will use asset allocation and Investment Adviser selection techniques to select Emerging and MWDBE Investment Advisers that will be complementary to the Fund’s other Investment Advisers.
 - c. Certification. The Board shall establish and publish guidelines for determining and verifying the certifications submitted to establish an Investment Adviser’s status as 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. The Fund’s staff will verify an Investment Adviser’s status as a Minority Owned Business, Female Owned Business, or Business Owned By A Person With A Disability, in accordance with the guidelines established by the Board under this Policy.
7. Quiet Period. There shall be a quiet period to ensure that the process of selecting an Investment Adviser is efficient, diligent and fair.
- a. The quiet period shall commence as of the deadline for the submission of responses to the SIA 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.
 - c. During the quiet period, Board members and staff should refrain from communicating with Investment Adviser candidates regarding any product or service related to the search offered by the candidate.
 - d. During the quiet period, no fiduciary including the Investment Consultant, shall accept meals, travel, lodging, entertainment or any other good or service of value from the candidates.

- e. If any Board member or staff member is contacted by a candidate during the quiet period about a matter relating to the pending selection, the Board member or staff member should refer the candidate to the Investment Consultant.
 - f. All authority related to the search 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 that is also an Investment Adviser candidate, discussion related to the pending selection should be avoided during those activities.
 - h. An Investment Adviser candidate may be disqualified from a search process for a willful material violation of this Policy.
8. Delivery of Responses. Responses shall be submitted to the Investment Consultant in accordance with the terms in the SIA.
9. Discussions
- a. Notwithstanding the quiet period provided for in Section D.7 of this Policy, the Investment Consultant and the Executive Director may conduct discussions with Investment Adviser candidates to:
 - i. Determine in greater detail an Investment Adviser’s qualifications; and
 - ii. Negotiate the various terms of the contract, including fees.
 - b. Timing of Discussions. Discussions with the Investment Consultant and the Fund’s staff may be held before and after the responses to the SIA have been submitted.
 - c. No Disclosure of Information. The Investment Consultant, Trustees, and the Fund’s staff shall not disclose publically any information contained in any responses until the presentation of the Investment Consultant’s recommendations at a Board meeting.
10. 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, Investment Consultant, and counsel agent

shall negotiate the final terms of the Investment Manager Agreement or the terms of 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.

- 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 SIAs being considered
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- 11. 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 Adviser(s), the total amount applicable to the contract, 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).
 - 12. Post Performance Review. All post performance review, including termination, shall be conducted in accordance with the Fund’s Investment Policy.