

METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND
INVESTMENT SERVICES PROCUREMENT POLICY

Adopted: May 27, 2009
Revised: October 27, 2021

A. Purpose

The Board of Trustees (“Board”) of the Metropolitan Water Reclamation District Retirement Fund (“Fund”) establishes the following Procurement Policy (“Policy”) for the procurement of providers of Investment Services.

B. Definitions

1. “Emerging Investment Adviser” or “Emerging Investment Manager,” as defined in Section 1-109.1(4) of the Illinois Pension Code, 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 MWDBE.
2. “Investment Adviser” or “Investment Manager,” as defined in Section 1-101.4 of the Illinois Pension Code, 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 MWRDRF’s assets;
 - c. has acknowledged in writing that it is a fiduciary with respect to the MWRDRF; 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;
3. “Investment Consultant” means any entity retained by the Board to make recommendations in developing an investment policy, to assist with finding appropriate Investment Managers 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 Manager(s) or partnerships. Other than a Trustee or an employee of the MWRDRF, no entity may act as an Investment Consultant unless that person is registered as an investment adviser or a bank under the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.)

4. “Investment Services” means services provided by an Investment Manager or an Investment Consultant.
5. MWDBE means a Minority-Owned Business, Women-Owned Business, or Business Owned by 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, as amended.
6. “MWDBE Investment Adviser” or “MWDBE Investment Manager” means a qualified Investment Manager that manages an investment portfolio and is a MWDBE.

C. Application of Competitive Selection Procedures.

Pursuant to Section 1-113.14 of the Illinois Pension Code, this Policy applies to the procurement of Investment Services, except:

1. Sole source procurements, meaning there is only one fiscally feasible source for the Investment Services.
2. Emergency procurements, including when: (a) there exists a threat to public health or public safety; (b) immediate expenditure is necessary for repairs to MWRDRF property in order to protect against further loss of or damage to MWRDRF property; (c) to prevent or minimize serious disruption in critical MWRDRF services, including, but not limited to, services that affect health and safety; or (d) to ensure the integrity of MWRDRF records. Emergency procurements of \$20,000 or more requires ratification by the Board at the next scheduled meeting.
3. At the discretion of the Board, contracts for Investment Services that are for a non-renewable term of one year or less and have a value of less than \$20,000.
4. At the discretion of the Board, contracts for follow-on funds with the same fund sponsor through closed-end funds.

All exceptions granted shall be published on the MWRDRF web site and shall include the name of the person authorizing the procurement and a brief explanation of the reason for the exception.

D. Competitive Selection Procedures.

All procurements of Investment Services under this Policy shall be awarded by the following competitive selection procedure.

1. Uniform Documents. As required by Section 113.14(f) of the Illinois Pension Code, uniform documents shall be used for the solicitation, evaluation, and retention of Investment Services and shall be posted on the MWRDRF website.
2. Public Notice. The Board shall determine when there shall be a search for Investment Services. The Board shall determine the parameters of the search. Notice of the need for Investment Services shall be determined by the Board at an open meeting.
3. Form and Publication. Notice of the need for Investment Services shall be published by the Board in the form of a Request for Proposals (“RFP”). The RFP may be publicized in a relevant trade journal or publication at least 30 days at least 30 days prior to the return date established in the RFP.
4. Public Availability. A copy of each RFP shall be made available for public inspection on the MWRDRF website.
5. Request for Proposals (“RFP”). Every procurement for Investment Services shall use an RFP, which shall contain, among other things, all of the following:
 - a. A requirement that the response shall contain the candidate’s contact information.
 - b. A date by which a response shall be returned.
 - c. The evaluation factors designated in Section D.6 or D.7 of this Policy, as applicable.
 - d. A copy of the MWRDRF’s current Investment Policy, with notice that such Policy is subject to change, as required by Section 113.14(c)(2) of the Illinois Pension Code.
 - e. A copy of the “quiet period” guidelines designated in Section D.9 of this Policy.
 - f. A copy of the MWRDRF Ethics Policy and the requirement that the candidate must agree to always comply with the MWRDRF Ethics Policy.
 - g. The MWRDRF standard Investment Management Agreement (if applicable) or Investment Consultant Agreement (if applicable), which shall be attached to the RFP and which 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 MWRDRF’s standard Investment Agreements are disfavored. Any objections to the MWRDRF’s standard Investment Agreements shall be detailed in the response to the RFP,

- h. A requirement that the response to the RFP shall contain the following disclosures required under the Illinois Pension Code:
 - (i) Pursuant to Section 113.14(c)(3) and (12) of the Illinois Pension Code, 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 or Investment Manager in connection with the provision of Investment Services to the MWRDRF;
 - (ii) Pursuant to Section 113.14(c)(5) of the Illinois Pension Code, the names and addresses of: the Investment Consultant or Investment Manager; any entity that is a parent of, or owns a controlling interest in, the Investment Consultant or Investment Manager; any entity that is a subsidiary of, or in which a controlling interest is owned by, the Investment Consultant or Investment Manager; any persons who have an ownership or distributive income share in the Investment Consultant or Investment Manager that is in excess of 7.5%; or serves as an executive officer of the Investment Consultant or Investment Manager. 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;
 - (iii) A statement that contingent and placement fees are prohibited by Section 1-145 of the Illinois Pension Code;
 - (iv) Pursuant to Section 113.14(c)(6) of the Illinois Pension Code, the names and addresses of all subcontractors, if any, and the expected amount of money each will receive under the contract;
 - (v) Pursuant to Section 113.21 of the Illinois Pension Code, a disclosure of the number of the Investment Consultant’s or Investment Manager’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 Consultant or Investment Manager has with a MWDBE; the number of contracts for investment, consulting, professional, and artistic services which the Investment Consultant or Investment Manager has with a business other than a MWDBE, if more than 50% of the services performed pursuant to that contract are performed by a minority person, a women, or a person with a disability. 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; and

- (vi) In addition, pursuant to Section 113.15 of the Illinois Pension Code, for searches for fund-of-fund Investment Managers: (a) a description of any fees, commissions, penalties, and other compensation payable, if any, directly by the retirement system, pension fund, or investment board (which shall not include any fees, commissions, penalties, and other compensation payable from the assets of the fund-of-funds or separate account); (b) a description (or method of calculation) of the fees and expenses payable by the MWRDRF to the Investment Manager and the timing of the payment of the fees or expenses; and (c) a description (or method of calculation) of any carried interest or other performance based interests, fees, or payments allocable by the MWRDRF to the Investment Manager or an affiliate of the Investment Manager and the priority of distributions with respect to such interest.
- i. Pursuant to Section 113.23 of the Illinois Pension Code, A requirement that in connection with an RFP for an Investment Manager, the Investment Consultant shall disclose for the prior 24 months any compensation or economic opportunity received in the last 24 months from an Investment Manager that is recommended for selection by the Investment Consultant. “Compensation” means any money, thing of value, or economic benefit conferred on, or received by, the Investment Consultant in return for services rendered, or to be rendered, by himself, herself, or another. "Economic opportunity" means any purchase, sale, lease, contract, option, or other transaction or arrangement involving property or services wherein the Investment Consultant may gain an economic benefit.
- j. Pursuant to Section 113.22 of the Illinois Pension Code, a requirement that the response to an RFP for an Investment Consultant the candidate shall disclose for the prior calendar year:
 - (i) The total number of searches for investment services;
 - (ii) The total number of searches for investment services that included MWDBE;
 - (iii) The total number of searches for investment services in which the candidate recommended for selection a MWDBE;
 - (iv) The total number of searches for investment services that resulted in the selection of a MWDBE; and
 - (v) The total dollar amount of investment made with a MWDBE that was selected after a search for investment services performed by the candidate.

- k. All documents created as part of an RFP, including the responses by prospective candidates for Investment Services, 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.
6. Evaluation of Investment Consultant Responses. Responses from Investment Consultant candidates will be evaluated by the Board and MWRDRF investment staff based on the following evaluation factors. The relative importance of the evaluation factors will vary based on the parameters of the search. The evaluation factors are as follows:
- a. The candidate firm’s financial and investment consulting client information, including:
 - (i) The total number, market value and revenues derived from the candidate firm’s investment consulting clients as of the prior year-end;
 - (ii) The percentage of the candidate firm’s gross revenue that is contributed by the investment consulting department;
 - (iii) Any other businesses in which the candidate firm is involved;
 - (iv) References from at least 3 public fund investment consulting clients;
 - (v) The history of the candidate 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 candidate firm, including when it was established and when Investment Services were first provided under the current structure.
 - c. The candidate firm’s experience advising large defined benefit plans, Investment Manager selection and oversight, and related Investment Services experience.
 - d. The qualifications and depth of the candidate firm’s professional staff and adequacy of its client servicing capabilities, including:
 - (i) The 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 biography information for the primary consultant and any other individuals expected to be assigned to the MWRDRF account, including number of years in the most recent position.
- e. The candidate firm’s litigation history within the last 10 years relating to Investment Services rendered.
- f. The candidate firm’s approach to managing and reducing cybersecurity risk and protecting networks and data, including complying with the U.S. Department of Labor’s Cybersecurity Program Best Practices, the State of Illinois Cybersecurity Strategy, the National Institute of Standards and Technology Cybersecurity Framework, and industry best practices.
- g. The disclosures under Section D.5.h through D.5.j, history of regulatory actions regarding the candidate firm’s practices, record of integrity and business ethics, and the strength of the candidate firm’s internal ethics and conflicts of interest policies.
- h. The candidate firm’s process for the search and selection of Investment Managers and Emerging and MWDBE Investment Managers, including:
 - (i) A description of the database(s) used to track and evaluate Investment Managers, including: the number of Investment Managers 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 Managers to access the database;
 - (ii) A description of the database(s) used to track and evaluate Emerging Investment Managers and MWDBE Investment Managers, including: the number of Emerging and MWDBE Investment Managers 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 Emerging and MWDBE Investment Managers to access the database;

- (iii) A specific description of the candidate firm’s policy for increasing access by and outreach to Emerging and MWDBE Investment Managers;
 - (iv) The process used to identify Investment Managers for specific asset allocations; and
 - (v) Considerations and practices with respect to the CFA Institute Global Investment Performance Standards (GIPS®)
 - i. The candidate firm’s process of monitoring and evaluating the performance of Investment Managers, including:
 - (i) The indices and composites used to evaluate Investment Managers’ performance within a specific asset allocation, as well as overall investment performance;
 - (ii) A description of the process to establish appropriate peer group and performance benchmarks; and
 - (iii) A description of the process for determining when to recommend termination of an Investment Manager.
 - j. The candidate 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.
 - k. The candidate firm’s performance measurement systems environment.
 - l. Pursuant to Sections 1-113.6 and 1-113.17 of the Illinois Pension Code, decision-useful sustainability factors will be considered within the bounds of financial and fiduciary prudence, including but not limited to (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided for under the Illinois Sustainable Investing Act, 30 ILCS 238/1, *et seq.* and detailed in the MWRDRF Investment Policy.
 - m. The reasonableness of the proposed fees, including the proposed retainer and fees for each service performed.
- 7. Evaluation of Investment Manager Responses. Responses will be evaluated initially by MWRDRF investment staff and the Investment Consultant based on the following evaluation factors. The relative importance of the evaluation factors will vary based on the parameters of the search. MWRDRF investment staff and the Investment Consultant will determine, based on the evaluation factors, the top-qualified Investment Managers and will disclose the non-finalists. The Board will select, in the exercise of its discretion based on the evaluation factors, an Investment

Manager from the list of top-qualified Investment Managers. The evaluation factors are:

- a. Firm background, experience, and reputation, including: the candidate 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 history of lawsuits and regulatory actions regarding the firm's investment practices, and the firm's record of integrity and business ethics;
- b. Investment philosophy and process, including: the clarity and technical merits of the investment process, buy/sell discipline, efficacy of decisions made (streamlined, responsive), consistency of application, risk awareness and controls, uniqueness of the process, trading ability;
- c. Performance, including long-term performance, risk factors and, consistency of performance, each of these relative to benchmarks and peers;
- d. The MWRDRF's overall Investment Policy and allocations among existing Investment Managers, including, but not limited to, the diversification of Investment Managers in terms of style, investment philosophy, and the complementary relationship between Investment Managers in the context of the Investment Policy;
- e. Reasonableness of the fees, including availability of 'most-favored nation' fee clauses;
- f. Portfolio management and client services, including client servicing, accounting, and reporting;
- g. The disclosures under Section D.5.h and D.5.i of this Policy;
- h. Pursuant to Sections 1-113.6 and 1-113.17 of the Illinois Pension Code, decision-useful sustainability factors will be considered within the bounds of financial and fiduciary prudence, including but not limited to (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided for under the Illinois Sustainable Investing Act, 30 ILCS 238/1, *et seq.* and detailed in the MWRDRF Investment Policy; and
- i. The candidate firm's approach to managing and reducing cybersecurity risk and protecting networks and data, including complying with the U.S. Department of Labor's Cybersecurity Program Best Practices, the State of Illinois Cybersecurity Strategy, the National Institute of tes and Technology Cybersecurity Framework, and industry best practices.

8. Emerging and MWDBE Investment Managers
 - a. Certification. Emerging or MWDBE Investment Managers shall provide documentation establishing their status as an MWDBE. Preference shall be given to the appropriate certification from the State of Illinois as acceptable documentation. If such certifications are not available, the MWRDRF may consider another state’s or a city’s certification.
 - b. Principle. The MWRDRF will not use any criteria to exclude an otherwise qualified Emerging or MWDBE Investment Manager, such as a minimum number of years in business or minimum assets under management. The MWRDRF’s goal is to improve investment performance by identifying highly qualified and potentially successful Emerging and MWDBE Investment Managers that can be awarded allocations or, if the Investment Manager is participating in a “fund of funds”, to be graduated into a separate account portfolio when openings occur or a need is identified.
 - c. Selection Process. If an Emerging or MWDBE Investment Manager meets the criteria in the RFP, then that Emerging or MWDBE Investment Manager shall receive an invitation by the Board to present as a finalist. If there are multiple Emerging or MWDBE Investment Managers that meet the criteria, then MWRDRF investment staff may choose the most qualified firm or firms to present to the Board.
9. Quiet Period. There shall be a quiet period to ensure that the process of selecting an Investment Consultant or Investment Manager is efficient and fair.
 - a. The quiet period shall commence with the posting of the RFP and end when the selection has been made by the Board and the parties have executed an Investment Services agreement.
 - b. Initiation, continuation, and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations. During the quiet period, contacts with Investment Services candidates shall be conducted only through the Fund’s investment staff.
 - c. During the quiet period, no fiduciary or staff member shall accept meals, travel, lodging, entertainment, or any other good or service of value from any candidate.
 - 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 or Investment Manager that is also a candidate, discussion related to the pending selection shall be avoided during those activities.

- f. A candidate may be disqualified from a search process for a willful violation of this Policy.

10. Discussions

- a. Notwithstanding the quiet period provided for in Section D.9 of this Policy, the Fund’s investment staff may conduct discussions with candidates to:
 - (i) Determine in greater detail a candidate’s qualifications; and
 - (ii) Negotiate the various terms of the Investment Services agreement, including fees.
- b. Discussions may be held before and after the responses to the RFP have been submitted.
- c. The Board and Fund investment staff shall not disclose publicly any information contained in any responses until the presentation of the finalists.

11. Award of Contract

- a. The Board shall determine the candidate(s) to be retained and the amount of assets to be awarded, as applicable.
- b. The Board through MWRDRF investment staff, the Investment Consultant, and legal counsel, in consultation with the Executive Director, shall negotiate the final terms of the Investment Services agreement. The Board may, in the interest of efficiency and as appropriate, direct negotiations with other candidates that were finalists, while negotiating with the chosen candidate.
- c. Nothing in this Section shall prohibit the Board from selecting the best value based on qualifications, fees, and other relevant factors established in the responses being considered.
- d. Pursuant to Section 113.14(d) of the Illinois Pension Code, 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.

12. Notice of Contract. Pursuant to Section 113.14(f) and 1-113.15(b) of the Illinois Pension Code, the Board’s decision(s) shall be public information and shall be posted on the MWRDRF website once an agreement has been executed. Such notice shall include the name of the successful Investment Consultant or Investment Manager, the fee structure to be paid, and a disclosure approved by MWRDRF

investment staff describing the factors that contributed to the selection of the Investment Consultant or Investment Manager.