**Section 2775.80 Investment Services Procurement**

a) Summary and Purpose

Effective January 1, 2015, Public Act 98-1022 amended the Illinois Pension Code and the Illinois Prepaid Tuition Act, imposing duties on the Program designed to increase racial, ethnic and gender diversity of investment fiduciaries and Investment Managers by requiring investment boards subject to the Pension Code and the Program to establish diversity goals. This Section has been created in order to effectuate those goals and other procurement methodology*.* This Part complies with the provisions of Public Act 98-1022 and the Illinois Prepaid Tuition Act to ensure investment transparency and objective consideration of potential investment services providers in conformance with the fiduciary duties imposed by those laws. The procurement of all investment services and fiduciaries by the Program will be conducted in accordance with the competitive selection procedures set forth in this Section.

b) Manager Database

1) The Manager Database serves as the primary pool from which the Program identifies candidates for Investment Manager searches.

2) To be considered in a search, all interested Investment Managers not currently in the Manager Database should ensure that all required information has been submitted to the Manager Database prior to the screening dates specified in the candidate profiles described in subsection (c)(3). Should a search be conducted for which a developed database does not exist or is incomplete, Investment Managers may be requested to submit a written Request for Information (RFI).

3) No fee is required to participate in the Manager Database. It is essential that all interested parties are able to enter required information into the database. Investment Managers should contact the Consultant for assistance with the database and should contact Staff regarding any unresolved issues or concerns related to the Manager Database submission for a Fund related search. Contact information for the Consultant and Staff will be available on the Program's website.

c) Investment Manager Searches

1) The Commission authorizes the Program's asset allocation targets and Investment Manager structure by recorded vote in a business meeting of the Commission conducted in accordance with the Open Meetings Act [5 ILCS 120]. Staff may initiate searches as necessary to implement the Program's asset allocation and/or fill vacancies within the manager structure.

2) At each meeting of the Investment Committee, Staff will notify the Committee of any new manager search, the status of all existing searches and the outcome of all completed searches.

3) With the initiation of a search, working with the Consultant, a written candidate profile that lists specific requirements and the process for each search shall be prepared. The candidate profile identifies specific quantitative and qualitative factors, such as:

A) minimum assets under management;

B) minimum track record;

C) risks relative to benchmarks;

D) return relative to benchmarks over various time periods;

E) size of the candidate's professional staff and tenure of the individual members of that staff;

F) investment strategy and process; and

G) organizational stability and strength.

4) The candidate profile is posted on the Program website to allow all interested candidates to review the search criteria and understand how to participate in the search.

5) The candidate profile identifies a specific screening period during which the Consultant will screen the Manager Database or other candidate information to identify all managers meeting the criteria of the candidate profile.

6) During the screening period identified in the candidate profile, Staff and the Consultant identify all candidates that meet the quantitative criteria specified in the candidate profile. Staff shall evaluate the efficacy of the screening process and initiate corrective action, if necessary.

7) Staff and the Consultant review the candidate list to eliminate any managers that fail to meet qualitative screens. All minority Investment Managers, as defined in Section 1-109.1(9) of the Code, that meet the minimum criteria of the search will be identified and the most qualified minority Investment Manager candidates will be included in the selection process described in this Section.

8) Staff and the Consultant further refine the candidate list to identify semifinalist firms that, based on criteria in the candidate profile, appear to have the highest probability of success over the next three to five years. In the event more information is necessary to narrow the semifinalist list, a standardized RFI may be issued to the pool of eligible semifinalists to facilitate further in-depth analysis by Staff and the Consultant. Semifinalists, in this case, are selected from the RFI submissions.

9) Staff conducts in-person interviews of semifinalist firms at the Program's offices or an alternate location agreed upon by the Program and the firm.

10) Following favorable results of the in-person interviews, Staff identifies finalist firms for formal due diligence meetings.

11) Following favorable due diligence review, a recommendation is presented to the Investment Committee for provisional approval. Staff will provide the Committee with a full report of the search process, including a summary of the search criteria and candidate firms, as well as the diversity disclosures required by Section 1-113.21 of the Code.

12) If any eligible managers, as defined in Section 1-109.1(9) of the Code, meet the minimum criteria of the search, the most qualified minority Investment Manager candidates will be invited to present as a finalist to the Investment Committee.

13) The Investment Committee decision is subject to final approval at the next meeting of the Commission.

d) Consultant or Custodian Searches

1) The Commission authorizes every search for a new or replacement Consultant or Custodian by recorded vote in a business meeting of the Commission conducted in accordance with the Open Meetings Act [5 ILCS 120].

2) Following Commission authorization, Staff prepares a Request for Proposal (RFP) containing, but not limited to, the following information:

A) the type of services required;

B) an estimate of when and for how long the services will be required;

C) the date and time by which proposals must be submitted; and

D) a statement of the information the proposal must contain.

3) The RFP is posted online to allow any interested candidate to review the search criteria. The RFP notice summarizes the services sought, tells how and where to submit proposals, specifies the deadline for submitting proposals, and tells when and where proposals will be publicly opened.

4) Proposals submitted in response to an RFP must comply with all requirements set forth in the RFP and must be submitted within the time frame specified in the RFP. Proposals are date and time stamped upon receipt. Proposals that arrive late for any reason will not be considered.

5) Proposals are publicly opened at the date and time specified in the RFP and online. Staff reviews all proposals that are timely received to ensure that all required information is included. Proposal information is publicly available following execution of a contract with the successful firm.

6) Staff identifies and ranks all proposals meeting all minimum qualifications specified in the RFP to identify semifinalist firms.

7) Staff conducts in-person interviews of semifinalist firms at the Program's offices or alternate location agreed upon by the Program and the firm.

8) Following favorable results of the in-person interviews, Staff identifies finalist firms for formal due diligence meetings.

9) Following favorable due diligence review, a recommendation is presented to the Investment Committee for provisional approval. Staff will provide the Committee with a full report of the search process, including a summary of the search criteria and candidate firms, as well as the diversity disclosures required by Section 1-113.21 of the Code.

10) The Investment Committee decision is subject to final approval at the next meeting of the Commission.

e) Evaluation by Investment Committee

1) The Investment Committee ensures that the decision and process to hire a particular investment services provider is well-reasoned, thoroughly considered and prudent.

2) The Investment Committee reviews written supporting documentation to assure the disclosure of all relevant issues; that the search process, investment sourcing and related due diligence was fair; and that the screening process was consistently applied.

3) Upon approval by the Investment Committee, any recommendation to hire a particular investment services provider is submitted to the Commission for approval.

f) Disclosures to be Considered Prior to Award

1) Prior to the award of a contract, an Investment Advisor, Consultant or Private Market Fund must make disclosures regarding its diversity pursuant to Section 1-113-21 of the Code.

2) The disclosures required by this Section shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract, oral or written, for Investment Advisor, Consultant or commitment to a Private Market Fund.

g) Fiduciary Obligation

All participants in the selection process for investment services shall conduct their responsibilities with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person familiar with these matters and acting in a like capacity would use in the conduct of an activity of like character and purpose. All conduct must be solely in the interest of the participants and beneficiaries of the Fund.

(Source: Amended at 42 Ill. Reg. 2064, effective January 16, 2018)