



## 101ST GENERAL ASSEMBLY

### State of Illinois

2019 and 2020

SB3748

Introduced 2/14/2020, by Sen. Iris Y. Martinez

#### SYNOPSIS AS INTRODUCED:

40 ILCS 5/1-113.14  
40 ILCS 5/1-113.15a new

Amends the General Provisions Article of the Illinois Pension Code. Defines "qualified manager of emerging investment managers services". In a provision requiring a competitive process for awarding investment contracts, adds an exclusion for contracts for investment services with an emerging investment manager provided through a qualified manager of emerging investment managers services. In a provision requiring contracts for investment services to include certain disclosures regarding subcontractors, excludes from the definition of "subcontractor" qualified managers of emerging investment managers services. Provides that based upon a written recommendation from an investment adviser providing qualified manager of emerging investment managers services for the selection or appointment of an emerging investment manager that has been providing investment services in the multimanager portfolio for at least 24 months, the board of a retirement system, pension fund, or investment board may select or appoint such emerging investment manager based upon such recommendation. Requires a qualified manager of emerging investment managers services to comply with specified requirements concerning written contracts. Effective January 1, 2021.

LRB101 20278 RPS 69820 b

FISCAL NOTE ACT  
MAY APPLY

PENSION IMPACT  
NOTE ACT MAY  
APPLY

A BILL FOR

1 AN ACT concerning public employee benefits.

2 **Be it enacted by the People of the State of Illinois,**  
3 **represented in the General Assembly:**

4 Section 5. The Illinois Pension Code is amended by changing  
5 Section 1-113.14 and by adding Section 1-113.15a as follows:

6 (40 ILCS 5/1-113.14)

7 Sec. 1-113.14. Investment services for retirement systems,  
8 pension funds, and investment boards, except those funds  
9 established under Articles 3 and 4.

10 (a) For the purposes of this Section, "investment services"  
11 means services provided by an investment adviser or a  
12 consultant other than qualified fund-of-fund management  
13 services, as defined in Section 1-113.15, and qualified manager  
14 of emerging investment managers services, as defined in Section  
15 1-113.15a.

16 (b) The selection and appointment of an investment adviser  
17 or consultant for investment services by the board of a  
18 retirement system, pension fund, or investment board subject to  
19 this Code, except those whose investments are restricted by  
20 Section 1-113.2, shall be made and awarded in accordance with  
21 this Section. All contracts for investment services shall be  
22 awarded by the board using a competitive process that is  
23 substantially similar to the process required for the

1 procurement of professional and artistic services under  
2 Article 35 of the Illinois Procurement Code. Each board of  
3 trustees shall adopt a policy in accordance with this  
4 subsection (b) within 60 days after the effective date of this  
5 amendatory Act of the 96th General Assembly. The policy shall  
6 be posted on its web site and filed with the Illinois  
7 Procurement Policy Board. Exceptions to this Section are  
8 allowed for (i) sole source procurements, (ii) emergency  
9 procurements, (iii) at the discretion of the pension fund,  
10 retirement system, or board of investment, contracts that are  
11 nonrenewable and one year or less in duration, so long as the  
12 contract has a value of less than \$20,000, ~~and~~ (iv) in the  
13 discretion of the pension fund, retirement system, or  
14 investment board, contracts for follow-on funds with the same  
15 fund sponsor through closed-end funds, (v) contracts for  
16 investment services with an emerging investment manager, and  
17 (vi) contracts for investment services with an emerging  
18 investment manager provided through a qualified manager of  
19 emerging investment managers services, as defined in Section  
20 1-113.15a. All exceptions granted under this Section must be  
21 published on the system's, fund's, or board's web site, shall  
22 name the person authorizing the procurement, and shall include  
23 a brief explanation of the reason for the exception.

24 A person, other than a trustee or an employee of a  
25 retirement system, pension fund, or investment board, may not  
26 act as a consultant or investment adviser under this Section

1 unless that person is registered as an investment adviser under  
2 the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1,  
3 et seq.) or a bank, as defined in the federal Investment  
4 Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.).

5 (c) Investment services provided by an investment adviser  
6 or a consultant appointed under this Section shall be rendered  
7 pursuant to a written contract between the investment adviser  
8 or consultant and the board.

9 The contract shall include all of the following:

10 (1) Acknowledgement in writing by the investment  
11 adviser or consultant that he or she is a fiduciary with  
12 respect to the pension fund or retirement system.

13 (2) The description of the board's investment policy  
14 and notice that the policy is subject to change.

15 (3) (i) Full disclosure of direct and indirect fees,  
16 commissions, penalties, and other compensation, including  
17 reimbursement for expenses, that may be paid by or on  
18 behalf of the consultant in connection with the provision  
19 of services to the pension fund or retirement system and  
20 (ii) a requirement that the consultant update the  
21 disclosure promptly after a modification of those payments  
22 or an additional payment.

23 (4) A requirement that the investment adviser or  
24 consultant, in conjunction with the board's staff, submit  
25 periodic written reports, on at least a quarterly basis,  
26 for the board's review at its regularly scheduled meetings.

1 All returns on investment shall be reported as net returns  
2 after payment of all fees, commissions, and any other  
3 compensation.

4 (5) Disclosure of the names and addresses of (i) the  
5 consultant or investment adviser; (ii) any entity that is a  
6 parent of, or owns a controlling interest in, the  
7 consultant or investment adviser; (iii) any entity that is  
8 a subsidiary of, or in which a controlling interest is  
9 owned by, the consultant or investment adviser; (iv) any  
10 persons who have an ownership or distributive income share  
11 in the consultant or investment adviser that is in excess  
12 of 7.5%; or (v) serves as an executive officer of the  
13 consultant or investment adviser.

14 (6) A disclosure of the names and addresses of all  
15 subcontractors, if applicable, and the expected amount of  
16 money each will receive under the contract, including an  
17 acknowledgment that the contractor must promptly make  
18 notification, in writing, if at any time during the term of  
19 the contract a contractor adds or changes any  
20 subcontractors. For purposes of this subparagraph (6),  
21 "subcontractor" does not include non-investment related  
22 professionals or professionals offering services that are  
23 not directly related to the investment of assets, such as  
24 legal counsel, actuary, proxy-voting services, services  
25 used to track compliance with legal standards, ~~and~~  
26 investment fund of funds, and qualified managers of

1       emerging investment managers services where the board has  
2       no direct contractual relationship with the investment  
3       advisers or partnerships.

4             (7) A description of service to be performed.

5             (8) A description of the need for the service.

6             (9) A description of the plan for post-performance  
7       review.

8             (10) A description of the qualifications necessary.

9             (11) The duration of the contract.

10            (12) The method for charging and measuring cost.

11       (d) Notwithstanding any other provision of law, a  
12       retirement system, pension fund, or investment board subject to  
13       this Code, except those whose investments are restricted by  
14       Section 1-113.2 of this Code, shall not enter into a contract  
15       with a consultant that exceeds 5 years in duration. No contract  
16       to provide consulting services may be renewed or extended. At  
17       the end of the term of a contract, however, the consultant is  
18       eligible to compete for a new contract as provided in this  
19       Section. No retirement system, pension fund, or investment  
20       board shall attempt to avoid or contravene the restrictions of  
21       this subsection (d) by any means.

22       (e) Within 60 days after the effective date of this  
23       amendatory Act of the 96th General Assembly, each investment  
24       adviser or consultant currently providing services or subject  
25       to an existing contract for the provision of services must  
26       disclose to the board of trustees all direct and indirect fees,

1 commissions, penalties, and other compensation paid by or on  
2 behalf of the investment adviser or consultant in connection  
3 with the provision of those services and shall update that  
4 disclosure promptly after a modification of those payments or  
5 an additional payment. The person shall update the disclosure  
6 promptly after a modification of those payments or an  
7 additional payment. The disclosures required by this  
8 subsection (e) shall be in writing and shall include the date  
9 and amount of each payment and the name and address of each  
10 recipient of a payment.

11 (f) The retirement system, pension fund, or board of  
12 investment shall develop uniform documents that shall be used  
13 for the solicitation, review, and acceptance of all investment  
14 services. The form shall include the terms contained in  
15 subsection (c) of this Section. All such uniform documents  
16 shall be posted on the retirement system's, pension fund's, or  
17 investment board's web site.

18 (g) A description of every contract for investment services  
19 shall be posted in a conspicuous manner on the web site of the  
20 retirement system, pension fund, or investment board. The  
21 description must include the name of the person or entity  
22 awarded a contract, the total amount applicable to the  
23 contract, the total fees paid or to be paid, and a disclosure  
24 approved by the board describing the factors that contributed  
25 to the selection of an investment adviser or consultant.

26 (Source: P.A. 98-433, eff. 8-16-13.)

1 (40 ILCS 5/1-113.15a new)

2 Sec. 1-113.15a. Qualified manager of emerging investment  
3 managers services.

4 (a) As used in this Section, "qualified manager of emerging  
5 investment managers services" means the services of an  
6 investment adviser acting in its capacity as an investment  
7 manager of a multimanager portfolio made up of emerging  
8 investment managers, as that term is defined in subsection (4)  
9 of Section 1-109.1.

10 (b) Based upon a written recommendation from an investment  
11 adviser providing qualified manager of emerging investment  
12 managers services for the selection or appointment of an  
13 emerging investment manager that has been providing investment  
14 services in the multimanager portfolio for at least 24 months,  
15 the board of a retirement system, pension fund, or investment  
16 board may select or appoint such emerging investment manager  
17 based upon such recommendation.

18 (c) A qualified manager of emerging investment managers  
19 services shall comply with the requirements regarding written  
20 contracts set forth in subsection (c) of Section 1-113.14.

21 Section 99. Effective date. This Act takes effect January  
22 1, 2021.