

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 Sections 1-109.1 and 1-113.14 and by adding Section 1-113.15a
6 as follows:

7 (40 ILCS 5/1-109.1) (from Ch. 108 1/2, par. 1-109.1)

8 Sec. 1-109.1. Allocation and delegation of fiduciary
9 duties.

10 (1) Subject to the provisions of Section 22A-113 of this
11 Code and subsections (2) and (3) of this Section, the board of
12 trustees of a retirement system or pension fund established
13 under this Code may:

14 (a) Appoint one or more investment managers as
15 fiduciaries to manage (including the power to acquire and
16 dispose of) any assets of the retirement system or pension
17 fund; and

18 (b) Allocate duties among themselves and designate
19 others as fiduciaries to carry out specific fiduciary
20 activities other than the management of the assets of the
21 retirement system or pension fund.

22 (2) The board of trustees of a pension fund established
23 under Article 5, 6, 8, 9, 10, 11, 12 or 17 of this Code may not

1 transfer its investment authority, nor transfer the assets of
2 the fund to any other person or entity for the purpose of
3 consolidating or merging its assets and management with any
4 other pension fund or public investment authority, unless the
5 board resolution authorizing such transfer is submitted for
6 approval to the contributors and pensioners of the fund at
7 elections held not less than 30 days after the adoption of such
8 resolution by the board, and such resolution is approved by a
9 majority of the votes cast on the question in both the
10 contributors election and the pensioners election. The
11 election procedures and qualifications governing the election
12 of trustees shall govern the submission of resolutions for
13 approval under this paragraph, insofar as they may be made
14 applicable.

15 (3) Pursuant to subsections (h) and (i) of Section 6 of
16 Article VII of the Illinois Constitution, the investment
17 authority of boards of trustees of retirement systems and
18 pension funds established under this Code is declared to be a
19 subject of exclusive State jurisdiction, and the concurrent
20 exercise by a home rule unit of any power affecting such
21 investment authority is hereby specifically denied and
22 preempted.

23 (4) For the purposes of this Code, "emerging investment
24 manager" means a qualified investment adviser that manages an
25 investment portfolio of at least \$10,000,000 but less than
26 \$20,000,000,000 at the time of the initial contract with the

1 retirement system, pension fund, or investment board
2 ~~\$10,000,000,000~~ and is a "minority-owned business",
3 "women-owned business" or "business owned by a person with a
4 disability" as those terms are defined in the Business
5 Enterprise for Minorities, Women, and Persons with
6 Disabilities Act.

7 It is hereby declared to be the public policy of the State
8 of Illinois to encourage the trustees of public employee
9 retirement systems, pension funds, and investment boards to use
10 emerging investment managers in managing their system's
11 assets, encompassing all asset classes, and increase the
12 racial, ethnic, and gender diversity of its fiduciaries, to the
13 greatest extent feasible within the bounds of financial and
14 fiduciary prudence, and to take affirmative steps to remove any
15 barriers to the full participation in investment opportunities
16 afforded by those retirement systems, pension funds, and
17 investment boards.

18 On or before January 1, 2010, a retirement system, pension
19 fund, or investment board subject to this Code, except those
20 whose investments are restricted by Section 1-113.2 of this
21 Code, shall adopt a policy that sets forth goals for
22 utilization of emerging investment managers. This policy shall
23 include quantifiable goals for the management of assets in
24 specific asset classes by emerging investment managers. The
25 retirement system, pension fund, or investment board shall
26 establish 3 separate goals for: (i) emerging investment

1 managers that are minority-owned businesses; (ii) emerging
2 investment managers that are women-owned businesses; and (iii)
3 emerging investment managers that are businesses owned by a
4 person with a disability. The goals established shall be based
5 on the percentage of total dollar amount of investment service
6 contracts let to minority-owned businesses, women-owned
7 businesses, and businesses owned by a person with a disability,
8 as those terms are defined in the Business Enterprise for
9 Minorities, Women, and Persons with Disabilities Act. The
10 retirement system, pension fund, or investment board shall
11 annually review the goals established under this subsection.

12 If in any case an emerging investment manager meets the
13 criteria established by a board for a specific search and meets
14 the criteria established by a consultant for that search, then
15 that emerging investment manager shall receive an invitation by
16 the board of trustees, or an investment committee of the board
17 of trustees, to present his or her firm for final consideration
18 of a contract. In the case where multiple emerging investment
19 managers meet the criteria of this Section, the staff may
20 choose the most qualified firm or firms to present to the
21 board.

22 The use of an emerging investment manager does not
23 constitute a transfer of investment authority for the purposes
24 of subsection (2) of this Section.

25 (5) Each retirement system, pension fund, or investment
26 board subject to this Code, except those whose investments are

1 restricted by Section 1-113.2 of this Code, shall establish a
2 policy that sets forth goals for increasing the racial, ethnic,
3 and gender diversity of its fiduciaries, including its
4 consultants and senior staff. Each retirement system, pension
5 fund, or investment board shall make its best efforts to ensure
6 that the racial and ethnic makeup of its senior administrative
7 staff represents the racial and ethnic makeup of its
8 membership. Each system, fund, and investment board shall
9 annually review the goals established under this subsection.

10 (6) On or before January 1, 2010, a retirement system,
11 pension fund, or investment board subject to this Code, except
12 those whose investments are restricted by Section 1-113.2 of
13 this Code, shall adopt a policy that sets forth goals for
14 utilization of businesses owned by minorities, women, and
15 persons with disabilities for all contracts and services. The
16 goals established shall be based on the percentage of total
17 dollar amount of all contracts let to minority-owned
18 businesses, women-owned businesses, and businesses owned by a
19 person with a disability, as those terms are defined in the
20 Business Enterprise for Minorities, Women, and Persons with
21 Disabilities Act. The retirement system, pension fund, or
22 investment board shall annually review the goals established
23 under this subsection.

24 (7) On or before January 1, 2010, a retirement system,
25 pension fund, or investment board subject to this Code, except
26 those whose investments are restricted by Section 1-113.2 of

1 this Code, shall adopt a policy that sets forth goals for
2 increasing the utilization of minority broker-dealers. For the
3 purposes of this Code, "minority broker-dealer" means a
4 qualified broker-dealer who meets the definition of
5 "minority-owned business", "women-owned business", or
6 "business owned by a person with a disability", as those terms
7 are defined in the Business Enterprise for Minorities, Women,
8 and Persons with Disabilities Act. The retirement system,
9 pension fund, or investment board shall annually review the
10 goals established under this Section.

11 (8) Each retirement system, pension fund, and investment
12 board subject to this Code, except those whose investments are
13 restricted by Section 1-113.2 of this Code, shall submit a
14 report to the Governor and the General Assembly by January 1 of
15 each year that includes the following: (i) the policy adopted
16 under subsection (4) of this Section, including the names and
17 addresses of the emerging investment managers used, percentage
18 of the assets under the investment control of emerging
19 investment managers for the 3 separate goals, and the actions
20 it has undertaken to increase the use of emerging investment
21 managers, including encouraging other investment managers to
22 use emerging investment managers as subcontractors when the
23 opportunity arises; (ii) the policy adopted under subsection
24 (5) of this Section; (iii) the policy adopted under subsection
25 (6) of this Section; (iv) the policy adopted under subsection
26 (7) of this Section, including specific actions undertaken to

1 increase the use of minority broker-dealers; and (v) the policy
2 adopted under subsection (9) of this Section.

3 (9) On or before February 1, 2015, a retirement system,
4 pension fund, or investment board subject to this Code, except
5 those whose investments are restricted by Section 1-113.2 of
6 this Code, shall adopt a policy that sets forth goals for
7 increasing the utilization of minority investment managers.
8 For the purposes of this Code, "minority investment manager"
9 means a qualified investment manager that manages an investment
10 portfolio and meets the definition of "minority-owned
11 business", "women-owned business", or "business owned by a
12 person with a disability", as those terms are defined in the
13 Business Enterprise for Minorities, Women, and Persons with
14 Disabilities Act.

15 It is hereby declared to be the public policy of the State
16 of Illinois to encourage the trustees of public employee
17 retirement systems, pension funds, and investment boards to use
18 minority investment managers in managing their systems'
19 assets, encompassing all asset classes, and to increase the
20 racial, ethnic, and gender diversity of their fiduciaries, to
21 the greatest extent feasible within the bounds of financial and
22 fiduciary prudence, and to take affirmative steps to remove any
23 barriers to the full participation in investment opportunities
24 afforded by those retirement systems, pension funds, and
25 investment boards.

26 The retirement system, pension fund, or investment board

1 shall establish 3 separate goals for: (i) minority investment
2 managers that are minority-owned businesses; (ii) minority
3 investment managers that are women-owned businesses; and (iii)
4 minority investment managers that are businesses owned by a
5 person with a disability. The retirement system, pension fund,
6 or investment board shall annually review the goals established
7 under this Section.

8 If in any case a minority investment manager meets the
9 criteria established by a board for a specific search and meets
10 the criteria established by a consultant for that search, then
11 that minority investment manager shall receive an invitation by
12 the board of trustees, or an investment committee of the board
13 of trustees, to present his or her firm for final consideration
14 of a contract. In the case where multiple minority investment
15 managers meet the criteria of this Section, the staff may
16 choose the most qualified firm or firms to present to the
17 board.

18 The use of a minority investment manager does not
19 constitute a transfer of investment authority for the purposes
20 of subsection (2) of this Section.

21 (10) Beginning January 1, 2016, it shall be the
22 aspirational goal for a retirement system, pension fund, or
23 investment board subject to this Code to use emerging
24 investment managers for not less than 20% of the total funds
25 under management. Furthermore, it shall be the aspirational
26 goal that not less than 20% of investment advisors be

1 minorities, women, and persons with disabilities as those terms
2 are defined in the Business Enterprise for Minorities, Women,
3 and Persons with Disabilities Act. It shall be the aspirational
4 goal to utilize businesses owned by minorities, women, and
5 persons with disabilities for not less than 20% of contracts
6 awarded for "information technology services", "accounting
7 services", "insurance brokers", "architectural and engineering
8 services", and "legal services" as those terms are defined in
9 the Act.

10 (Source: P.A. 99-462, eff. 8-25-15; 100-391, eff. 8-25-17;
11 100-902, eff. 8-17-18.)

12 (40 ILCS 5/1-113.14)

13 Sec. 1-113.14. Investment services for retirement systems,
14 pension funds, and investment boards, except those funds
15 established under Articles 3 and 4.

16 (a) For the purposes of this Section, "investment services"
17 means services provided by an investment adviser or a
18 consultant other than qualified fund-of-fund management
19 services, as defined in Section 1-113.15, and qualified manager
20 of emerging investment managers services, as defined in Section
21 1-113.15a.

22 (b) The selection and appointment of an investment adviser
23 or consultant for investment services by the board of a
24 retirement system, pension fund, or investment board subject to
25 this Code, except those whose investments are restricted by

1 Section 1-113.2, shall be made and awarded in accordance with
2 this Section. All contracts for investment services shall be
3 awarded by the board using a competitive process that is
4 substantially similar to the process required for the
5 procurement of professional and artistic services under
6 Article 35 of the Illinois Procurement Code. Each board of
7 trustees shall adopt a policy in accordance with this
8 subsection (b) within 60 days after the effective date of this
9 amendatory Act of the 96th General Assembly. The policy shall
10 be posted on its web site and filed with the Illinois
11 Procurement Policy Board. Exceptions to this Section are
12 allowed for (i) sole source procurements, (ii) emergency
13 procurements, (iii) at the discretion of the pension fund,
14 retirement system, or board of investment, contracts that are
15 nonrenewable and one year or less in duration, so long as the
16 contract has a value of less than \$20,000, ~~and~~ (iv) in the
17 discretion of the pension fund, retirement system, or
18 investment board, contracts for follow-on funds with the same
19 fund sponsor through closed-end funds, (v) contracts for
20 investment services with an emerging investment manager, and
21 (vi) contracts for investment services with an emerging
22 investment manager provided through a qualified manager of
23 emerging investment managers services, as defined in Section
24 1-113.15a. All exceptions granted under this Section must be
25 published on the system's, fund's, or board's web site, shall
26 name the person authorizing the procurement, and shall include

1 a brief explanation of the reason for the exception.

2 A person, other than a trustee or an employee of a
3 retirement system, pension fund, or investment board, may not
4 act as a consultant or investment adviser under this Section
5 unless that person is registered as an investment adviser under
6 the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1,
7 et seq.) or a bank, as defined in the federal Investment
8 Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.).

9 (c) Investment services provided by an investment adviser
10 or a consultant appointed under this Section shall be rendered
11 pursuant to a written contract between the investment adviser
12 or consultant and the board.

13 The contract shall include all of the following:

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

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

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

1 (4) A requirement that the investment adviser or
2 consultant, in conjunction with the board's staff, submit
3 periodic written reports, on at least a quarterly basis,
4 for the board's review at its regularly scheduled meetings.
5 All returns on investment shall be reported as net returns
6 after payment of all fees, commissions, and any other
7 compensation.

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

18 (6) A disclosure of the names and addresses of all
19 subcontractors, if applicable, and the expected amount of
20 money each will receive under the contract, including an
21 acknowledgment that the contractor must promptly make
22 notification, in writing, if at any time during the term of
23 the contract a contractor adds or changes any
24 subcontractors. For purposes of this subparagraph (6),
25 "subcontractor" does not include non-investment related
26 professionals or professionals offering services that are

1 not directly related to the investment of assets, such as
2 legal counsel, actuary, proxy-voting services, services
3 used to track compliance with legal standards, ~~and~~
4 investment fund of funds, and qualified managers of
5 emerging investment managers services where the board has
6 no direct contractual relationship with the investment
7 advisers or partnerships.

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

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

10 (9) A description of the plan for post-performance
11 review.

12 (10) A description of the qualifications necessary.

13 (11) The duration of the contract.

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

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

26 (e) Within 60 days after the effective date of this

1 amendatory Act of the 96th General Assembly, each investment
2 adviser or consultant currently providing services or subject
3 to an existing contract for the provision of services must
4 disclose to the board of trustees all direct and indirect fees,
5 commissions, penalties, and other compensation paid by or on
6 behalf of the investment adviser or consultant in connection
7 with the provision of those services and shall update that
8 disclosure promptly after a modification of those payments or
9 an additional payment. The person shall update the disclosure
10 promptly after a modification of those payments or an
11 additional payment. The disclosures required by this
12 subsection (e) shall be in writing and shall include the date
13 and amount of each payment and the name and address of each
14 recipient of a payment.

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

22 (g) A description of every contract for investment services
23 shall be posted in a conspicuous manner on the web site of the
24 retirement system, pension fund, or investment board. The
25 description must include the name of the person or entity
26 awarded a contract, the total amount applicable to the

1 contract, the total fees paid or to be paid, and a disclosure
2 approved by the board describing the factors that contributed
3 to the selection of an investment adviser or consultant.

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

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

6 Sec. 1-113.15a. Qualified manager of emerging investment
7 managers services.

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

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

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

25 Section 99. Effective date. This Act takes effect upon

1 becoming law.