



Rep. Lou Lang

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1 AMENDMENT TO SENATE BILL 3162

2 AMENDMENT NO. \_\_\_\_\_. Amend Senate Bill 3162, AS AMENDED,  
3 by replacing everything after the enacting clause with the  
4 following:

5 "Section 5. The Illinois Pension Code is amended by  
6 changing Sections 1-113.14 and 22A-111 and by adding Section  
7 1-113.15 as follows:

8 (40 ILCS 5/1-113.14)

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

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

16 (b) The selection and appointment of an investment adviser

1 or consultant for investment services by the board of a  
2 retirement system, pension fund, or investment board subject to  
3 this Code, except those whose investments are restricted by  
4 Section 1-113.2, shall be made and awarded in accordance with  
5 this Section. All contracts for investment services shall be  
6 awarded by the board using a competitive process that is  
7 substantially similar to the process required for the  
8 procurement of professional and artistic services under  
9 Article 35 of the Illinois Procurement Code. Each board of  
10 trustees shall adopt a policy in accordance with this  
11 subsection (b) within 60 days after the effective date of this  
12 amendatory Act of the 96th General Assembly. The policy shall  
13 be posted on its web site and filed with the Illinois  
14 Procurement Policy Board. Exceptions to this Section are  
15 allowed for (i) sole source procurements, (ii) emergency  
16 procurements, and (iii) at the discretion of the pension fund,  
17 retirement system, or board of investment, contracts that are  
18 nonrenewable and one year or less in duration, so long as the  
19 contract has a value of less than \$20,000. All exceptions  
20 granted under this Section must be published on the system's,  
21 fund's, or board's web site, shall name the person authorizing  
22 the procurement, and shall include a brief explanation of the  
23 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 where the board has no direct

1 contractual relationship with the investment advisers or  
2 partnerships.

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

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

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

7 (10) A description of the qualifications necessary.

8 (11) The duration of the contract.

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

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

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

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

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

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

25 (Source: P.A. 96-6, eff. 4-3-09.)

1 (40 ILCS 5/1-113.15 new)

2 Sec. 1-113.15. Qualified fund-of-fund management services.

3 (a) As used in this Section:

4 "Qualified fund-of-fund management services" means either  
5 (i) the services of an investment adviser acting in its  
6 capacity as an investment manager of a fund-of-funds or (ii) an  
7 investment adviser acting in its capacity as an investment  
8 manager of a separate account that is invested on a  
9 side-by-side basis in a substantially identical manner to a  
10 fund-of-funds, in each case pursuant to qualified written  
11 agreements.

12 "Qualified written agreements" means one or more written  
13 contracts to which the investment adviser and the board are  
14 parties and includes all of the following: (i) the matters  
15 described in items (1), (4), (5), (7), (11), and (12) of  
16 subsection (c) of Section 1-113.14; (ii) a description of any  
17 fees, commissions, penalties, and other compensation payable,  
18 if any, directly by the retirement system, pension fund, or  
19 investment board (which shall not include any fees,  
20 commissions, penalties, and other compensation payable from  
21 the assets of the fund-of-funds or separate account); (iii) a  
22 description (or method of calculation) of the fees and expenses  
23 payable by the Fund to the investment adviser and the timing of  
24 the payment of the fees or expenses; and (iv) a description (or  
25 method of calculation) of any carried interest or other  
26 performance based interests, fees, or payments allocable by the

1 Fund to the investment adviser or an affiliate of the  
2 investment adviser and the priority of distributions with  
3 respect to such interest.

4 (b) A description of every contract for qualified  
5 fund-of-fund management services must be posted in a  
6 conspicuous manner on the web site of the retirement system,  
7 pension fund, or investment board. The description must include  
8 the name of the fund-of-funds, the name of its investment  
9 adviser, the total investment commitment of the retirement  
10 system, pension fund, or investment board to invest in such  
11 fund-of-funds, and a disclosure approved by the board  
12 describing the factors that contributed to the investment in  
13 such fund-of-funds. No information that is exempt from  
14 inspection pursuant to Section 7 of the Freedom of Information  
15 Act shall be disclosed under this Section.

16 (40 ILCS 5/22A-111) (from Ch. 108 1/2, par. 22A-111)

17 Sec. 22A-111. The Board shall manage the investments of any  
18 pension fund, retirement system, or education fund for the  
19 purpose of obtaining a total return on investments for the long  
20 term. It also shall perform such other functions as may be  
21 assigned or directed by the General Assembly.

22 The authority of the board to manage pension fund  
23 investments and the liability shall begin when there has been a  
24 physical transfer of the pension fund investments to the board  
25 and placed in the custody of the State Treasurer.



1           The authority of the board to manage monies from the  
2 education fund for investment and the liability of the board  
3 shall begin when there has been a physical transfer of  
4 education fund investments to the board and placed in the  
5 custody of the State Treasurer.

6           The board may not delegate its management functions, but it  
7 may, but is not required to, arrange to compensate for  
8 personalized investment advisory service for any or all  
9 investments under its control, with any national or state bank  
10 or trust company authorized to do a trust business and  
11 domiciled in Illinois, ~~or~~ other financial institution  
12 organized under the laws of Illinois, or an investment advisor  
13 who is qualified under Federal Investment Advisors Act of 1940  
14 and is registered under the Illinois Securities Law of 1953.  
15 Nothing contained herein shall prevent the Board from  
16 subscribing to general investment research services available  
17 for purchase or use by others. The Board shall also have the  
18 authority to compensate for accounting services.

19           This Section shall not be construed to prohibit the  
20 Illinois State Board of Investment from directly investing  
21 pension assets in public market investments, private  
22 investments, real estate investments, or other investments  
23 authorized by this Code.

24           (Source: P.A. 84-1127.)

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

1 becoming law.".