

# **BOARD OF INVESTMENT TRUSTEES**

MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS



**SERVICE PROVIDER PROCUREMENT POLICY**

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SERVICE PROVIDER PROCUREMENT POLICY  
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BOARD OF INVESTMENT TRUSTEES  
SERVICE PROVIDER PROCUREMENT POLICY

I. Purpose & Authorities

**A. Purpose of Policy Statement/Board Requirements**

The purpose of this statement is to define the policy of the Board of Investment Trustees (the “Board”) regarding the procurement of external service providers. These services are required in the management of the investment programs for the Employee Retirement Plans (the “ERP”) which include the Employees’ Retirement System, Retirement Savings Plan and Deferred Compensation Plan. The policy statement is intended to foster competition and fairness while being flexible to meet the needs of a dynamic investment environment.

This policy does not cover procurement of Board office administrative services, which generally follows established County contracts and procedures (i.e., procurement of supplies, mini-contracts, etc.) and is set forth in the Board’s Administrative Manual.

**B. Statutory Board Responsibility and Authority to Contract for Services**

Pursuant to Section 33-60 of the Montgomery County Code, the Board has the fiduciary responsibility for the governance of the ERP investment management programs and has exclusive authority to contract for services to meet this responsibility.

**C. Board Exemption from County Procurement Regulations**

Pursuant to Section 33-60 of the Montgomery County Code, the Board is exempt from the Montgomery County Government procurement regulations in the procurement of services for the management of ERP assets. However, as detailed in this policy, the Board adheres to a competitive procurement process in the procurement of service providers.

**D. Communications Responsibilities**

Official communications related to Board procurement processes and activities will be coordinated by Board Staff. Staff will report items of significance to the Board as appropriate.

II. Procurement of Service Providers - Procedures

**A. Stage 1 – ERP Program requirements**

- The Board will determine the services necessary to meet the goals of the program, including:
  - Hiring/Terminating of service providers
  - Number of service providers sought
  - Urgency/timeframe for search
  - Consultant support required

## **B. Stage 2 – Research Process**

This stage involves determining search criteria and sources and the list of possible candidates that may meet Board needs as specified in Stage 1.

### **1. Criteria**

Based on need, Staff will recommend a specific list of criteria for determining eligible vendors (“service providers”) for the ERP. The initial criteria will pertain to minimum requirements related to expertise in the service area being procured. The Board may add additional criteria to be used in a particular search.

### **2. Candidate sources**

Although not limited to the sources listed below, Staff generally uses these sources to identify eligible candidates. Staff may also use sources identified by the Board’s consultant(s). The Board or Staff may recommend additional sources to be used in a particular search.

- Third-party databases including, consultant and other vendors
- Industry sources
- Marketing materials
- Institutional investor contacts
- Reports and sources used to identify emerging investment managers
- Montgomery County resources and information

### **3. Emerging Investment Managers**

The Board, Staff and consultants are committed to including emerging investment managers, among prospective investment manager candidates, including businesses owned by women, minorities and disabled individuals. Emerging investment managers are:

- Firms with assets and/or product assets below the 75<sup>th</sup> percentile of their respective peer group; or
- New or developing firm which is:
  - Raising its first or second institutional fund or
  - Creating its first institutional product
- 

Special efforts will be made to ensure identification of possible eligible firms in the search process including:

- regular monitoring of above-referenced sources to identify possible candidates
- regular review of emerging investment managers
- Staff interviews with emerging firms on an ongoing basis
- maintenance of research files on such firms to assist efforts when searches begin

### **4. Selection of Candidates**

Based on criteria and sources noted above, Staff will prepare a list of possible candidates for a specific search. Staff, with the assistance of the investment consultant, generally will issue a Request For Information (RFI) to the candidates selected. In special circumstances, with Board approval, Staff may not issue a RFI (e.g. using same service provider across County Plans).

Due to the nature of private market and non-marketable investment opportunities for the Employees' Retirement System Staff may not issue a RFI. Staff may identify opportunities based on criteria identified in Stage 2 and will evaluate the opportunity based on the criteria identified in Stage 3.

### **C. Stage 3 – Review and Verification Process**

Stage 3 of the search process focuses on review and verification of information pertaining to the list of candidates identified in Stage 2. Completion of the Stage 3 process should result in the selection of a finalist.

#### **1. Due diligence evaluations**

Staff will complete a due diligence process to confirm findings identified in Stage 2. Those candidates deemed to be eligible will be interviewed by Staff, and the Board's consultant (if applicable), by phone or in person in the Board's office. Staff will prepare a summary of the candidate's evaluation which may include:

- Quantitative information resulting from Stage 2 criteria.
- Qualitative information related to candidate's experience, strategies and operations including:
  - organizational structure
  - experience and depth of personnel, including turnover
  - firm-specific operational philosophy
  - fees
  - references from Board consultant(s)
  - references from other sources
  - in the case of limited partnership arrangements such as private equity, real estate or hedge funds, fund-specific aspects including but not limited to liquidity and tax issues.
  - firm-specific legal/litigation issues

#### **2. Selection of finalist(s)**

Staff will usually conduct an onsite due diligence review of the finalist(s) which will include an interview, and prepare a report, along with a due diligence evaluation form, with input from the Board consultant resulting in a recommendation of a finalist(s) to the Board. The selection of the finalist(s) will be based on both quantitative and qualitative evaluations as well as interviews and results of reference checks.

#### **3. Contracting**

After Staff has selected any finalist(s), Staff, in conjunction with Board counsel, will evaluate the contract and governing documents to determine whether there are major issues with the service provider's contract or governing documents that would prohibit the Board from entering into a contract.

#### **D. Stage 4 – Board Selection of Finalist(s) and Contract Process**

The Board will vote on Staff's recommendation of any service provider(s) at a meeting of the Board pursuant to Board bylaws. Staff, with assistance from the Board's counsel,, will negotiate the terms of the contract or agreement.

##### **1. Voting**

The Board will vote based on all information made available by Staff, including information on the entire search process as summarized by Staff and the consultant, subsequent materials prepared for Board consideration, final interviews and due diligence meetings, as applicable. The Board will vote by formal resolution.

If the Board does not vote to accept Staff's recommendation, then the Board will determine at what stage to recommence the procurement process.

##### **2. Contract process and negotiations**

Staff will pursue contract negotiations, including terms related to fees, operational issues and guidelines, and will apprise the Board if needed.

A. Agreements may follow a format approved by the Board and generally will include provisions for:

- establishment of the account and assignment of management and fiduciary responsibility if required
- directions pertaining to the operations of the account
- directions pertaining to Board and Staff authorities and communications
- professional liability insurance for errors and omissions
- fee and terms of invoicing and payment
- contract termination upon notice by either Board or service provider
- Board required disclosures
- addenda related to Board policies and procedures, and operational guidelines

B. All service provider agreements will be reviewed by Staff and the Board's counsel to confirm conformance with Board policies and applicable law.

##### **3. Contract execution**

All agreements and contracts will be approved and executed in accordance with Board Bylaws.

### III. Monitoring of Service Providers

#### **A. Review process**

Staff regularly conducts contract compliance reviews, including reviews of service provider performance, conformance to guidelines, organizational structure and any other performance requirements as specified in the service provider's contract. Service provider related matters other than performance and contract compliance matters will be reported to the Compliance and Audit Committee when deemed significant by Staff, i.e. if the matter(s) have a possible effect on the service provider's ability to perform as expected. Staff will apprise the Board of performance issues and make recommendations to the Board as necessary. The Compliance and Audit Committee will assess compliance issues and make recommendations to the Board as necessary.

Generally Staff conducts reviews of all aspects of the service provider's contract on an annual basis. The review may include a due diligence review in the service provider's office or the Board's office when necessary. Matters to be reviewed include but are not limited to the quantitative and qualitative factors which served as the basis for selection as a service provider.

Annually the Compliance and Audit Committee will review and report compliance by Board service providers with contract disclosure requirements

#### **B. Contract modifications**

With the exception of minor guideline or contract changes, Staff will advise the Board of any suggested modifications to the contract terms, whether requested by the service provider or by Staff. Staff, with the assistance of Counsel, will determine the appropriate method of modification, i.e. contract amendment or letter agreement. Staff will recommend an approval method and background information required by the Board to consider any such modification. Staff will prepare an annual report to the Board reflecting recommendations of modifications to service provider contracts.

With the exception of minor guideline and contract changes, the Board approves contract modifications through Board resolution. For all minor guideline and contract changes, Staff, in conjunction with Board counsel, has the authority to recommend that the Board Chair approve the contract modification.

For all private market and non-marketable investments, Staff, in conjunction with Board counsel, will have the authority to recommend approval/disapproval to the Board Chair of all amendments to the governing documents proposed by the fund manager.

### IV. Termination of Service Providers

#### **A. Basis for termination**

With the exception of private market investments, the Board may terminate a service provider at any time and contract terms must provide for immediate termination upon written notice by the Board. Private market investments may not be easily liquidated and therefore

immediate termination may not be possible. The Board may terminate service providers for any reason, including but not limited to one or more of the following reasons:

- ERP program changes
- Changes in the following:
  - people and organization of the firm
  - philosophy and process of investment strategy
  - resources dedicated to the investment strategy
  - performance of the product that is being reviewed
  
- Service providers -specific issues related to lack of adherence to contract terms or guidelines or any other changes in the service provider's business strategies.

## **B. Procedures**

Staff provides background information regarding any basis for termination of a service provider to the Board. Action to terminate a service provider must be made by Board resolution. Staff determines and implements the appropriate account transfer/liquidation procedures, informing the Board as necessary.

## **V. Records Retention**

Staff will maintain service provider records in the Board office. Service provider records will include search-related materials presented to the Board at the time of selection as well as legal and correspondence files. Records will be retained in accordance with Board office procedures. After the service provider relationship has ended, Staff will archive records in accordance with the Board office's records retention policy.

## **VI. Ethics**

The Board, and as applicable, Staff, will at all times conform to Standard of Professional and Ethical Conduct adopted by the Board and County ethics laws. In addition, individual Board and Staff members will disclose to the Board any inherent, potential, or perceived conflicts of interest in dealing with specific service providers prior to taking any official action concerning any service provider.

Any violation of County or Board ethics rules by any Board or Staff member will be handled in accordance with County Government procedures.

## **VI. Policy Review**

Staff and/or the Board will review and recommend amendments to this policy as necessary.

## **VIII. County Code-Reporting Requirements**

In accordance with County Code Section 33-60B, the Board will annually report to the County Council and the Executive:

- the identity of each emerging investment manager used during the prior fiscal year;
- the percentage and dollar value of the assets and the investment sector managed by each emerging investment manager; and
- the good faith effort made to include emerging investment managers in the procurement process during the prior fiscal year.

Amended: May 18, 2012

July 22, 2011

May 21, 2010

January 11, 2008

December 7, 2007

December 2, 2005

September 6, 2002

## **(A) Due Diligence Evaluation – Liquid Investment Managers**

Liquid managers will be evaluated using the following broad categories:

- People
  - Ownership/incentives
  - Quality of key professionals/team
- Organization
  - Assets under management
  - Commitment to improvement
  - Firm evaluation
- Philosophy/Process
  - Alpha – Idea generation
  - Portfolio construction
- Resources/Systems/Administration
  - Research resources
  - Information/compliance systems
  - Administration/back-office
  - Trading
- Performance
- Fees

## **(B) Due Diligence Evaluation – Illiquid Investment Managers**

Illiquid managers will be evaluated using the following broad categories:

- People
  - Ownership/incentives
  - Quality of key professionals/team
- Organization
  - Assets under management
  - Commitment to improvement
  - Firm evaluation
  - Boards/committees/decision-making bodies
- Philosophy/Process
  - Investment process
  - Portfolio construction
- Resources/Systems/Administration
  - Research resources
  - Information systems
  - Administration/back-office
- Performance
- Fees

### **(C) Due Diligence Evaluation – Other Service Providers**

Non-manager vendors will be evaluated using the following broad categories:

- People
  - Ownership/incentives
  - Quality of key professionals/team
- Organization
  - Assets under management/advisement
  - Commitment to improvement
  - Firm evaluation
- Philosophy/Process (may be non-applicable to certain vendors)
  - Idea generation
  - Portfolio construction
- Resources/Systems/Administration
  - Research resources
  - Information/compliance systems
  - Administration/back-office
- Other categories deemed critical for the search