

## **INVESTMENT MANAGER MONITORING AND RETENTION POLICY**

The Laborers and Retirement Board Employees' Annuity and Benefit Fund of Chicago has developed the following policy in order to provide a systematic, consistent and rational framework for manager retention and termination decisions. The Fund Board of Trustees ("Board") and staff work with the investment consultant to monitor all managers quarterly for adherence to investment guidelines, progress toward achieving investment goals, and conformance to all Board policies, such as use of minority and women-owned brokers. Each manager provides a quarterly written report covering goals and objectives, a statement of investment philosophy, investment performance, proxy voting, and use of brokers.

The Board recognizes that while asset allocation is the key driver of the Fund's returns, individual managers also have an impact on long-term performance. The Board also recognizes that there are costs associated with terminating managers just as there are opportunity costs related to retaining an underperforming manager. Since all managers experience fluctuations in performance, from time to time a manager may be found to be performing below expectations relative to his chosen benchmark and/or compared to the appropriate peer group. This policy is intended to set guidelines in order to address the issue of whether an underperforming manager should be retained. In evaluating managers, both quantitative and qualitative assessments play an important role. Qualitative issues of organization, personnel and investment approach will be given appropriate consideration. In the quantitative analysis, attention will be paid to the manager's typical pattern of performance relative to his benchmark and to his peer group in assessing the likelihood of future success. The following policy is intended to assist the Board in carrying out its responsibilities and to support the Board's ability to exercise its judgment regarding manager retention and termination matters.

### **Performance Issues**

The investment consultant and staff are responsible for bringing performance issues to the attention of the Board. At the discretion of the Board, the following actions may be taken:

1. The Board may delegate staff and/or the investment consultant to meet with the manager to express the Board's concerns and to investigate the reasons for the underperformance. The consultant and/or staff will report back to the Board with a recommendation for action.
2. The Board may elect to request a formal presentation by the manager to discuss performance and any plans the manager may have to remedy their shortcomings. This meeting will be followed by discussion and possible Board action to place the manager on Watch or to terminate.

### **Watch List**

The Board may place a manager on Watch if the Board believes that performance may improve over a reasonable period of time. A manager on Watch is required to report monthly to the Board on performance. The reasons for placing a manager on Watch can include:

- a. Changes in ownership or major personnel changes affecting the investment team;

b. Performance Expectations:

It is expected that the managers will outperform the median return of a representative database of managers with a similar style over a market cycle or three years, whichever is less. Over longer periods of time, it is expected that the managers will exceed the return of their broad market index (i.e. S&P 500, Russell 2500, Barclays Capital Aggregate, NCREIF, etc...). The failure of a manager to meet the performance expectations may result in the manager being placed on Watch.

Both the reasons for the underperformance, the magnitude thereof and the manager's rankings relative to a peer group will be taken into consideration in these deliberations;

c. Significant deviation from the manager's stated investment style.

d. Noncompliance with board policies, including policies regarding

- use of minority and women-owned brokers,
- proxy voting
- ethics policy.

If a manager has been placed on Watch they may be invited to appear before the Board to address the Board's concerns.

A manager on Watch will be reviewed monthly by the Board. The Board must vote to determine whether to remove the manager from the watch list, extend the watch list period, to reduce the assets under the manager's control, or to terminate the manager.

### Termination

The decision to terminate a manager will take into account both quantitative and qualitative issues and the costs associated with manager changes. Termination may result after a manager has been on Watch, and the Board no longer has confidence in the manager's ability to perform and determines that the manager is unlikely to make up the performance shortfall or remedy the situation that led to the Watch list status.

The Board may terminate a manager without placing the manager on Watch in cases where, in the judgment of the Board, the manager has materially violated any of the terms under which it was hired, or where the Board no longer has confidence in the ability of the manager to reach long-term performance targets.

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