

**APPENDIX B**  
**Oklahoma Police Pension & Retirement System**  
***Competitive Bid Standards***

Contractual services with pension fund custodians, investment managers, investment consultants and other professionals which are exempt from competitive bidding procedures of the Oklahoma Central Purchasing Act shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to the following standards:

1. The Board shall approve all solicitations of proposals to be issued by the Oklahoma Police Pension Retirement System (the System).
2. Respondents to a proposal shall comply with the bid procedures set forth in the solicitation of proposals and these standards.
3. The Executive Director and the Board's Investment Consultant are responsible for developing a list of qualified bidders for each approved proposal, including those bidders who have registered with the Central Purchasing Division of the Oklahoma Department of Central Services.
4. Proposals will be mailed by and returned to the System's independent certified public accountant that will verify to the Board whether the solicitation is in compliance with these standards.
5. A solicitation does not commit the Board to award a contract, to pay any costs incurred in the preparation of a proposal, or to procure or contract for the proposed services.
6. The Board reserves the right to accept or reject any or all proposals received as a result of a solicitation, to negotiate with any and all qualified bidders, to select any qualified bidder to provide additional or ancillary services to the Board, or to cancel in part or in its entirety a solicitation if it is in the best interest of the System to do so.
7. The Board shall award contracts at a specified time and place, which shall be open to the public pursuant to the provisions of the Oklahoma Open Meeting Act.
8. Proposals shall be evaluated by the Executive Director and the Board's Investment Consultant, and any other person or organization as determined by the Chairmen of the Board. The Executive Director, Investment Consultant and other persons or organizations shall present the evaluations and recommendations to the Board.
9.
  - a. No member of the Board or its staff shall knowingly communicate concerning any matter relating to the contract or selection process with any party financially interested in the contract, an officer or employee of that party, or a placement agent retained or employed by that party, unless the communication is (1) part of the process expressly described in the request for proposal or other solicitation invitation, or (2) part of a noticed board meeting, or (3) as provided in subsection c. of this section. Any bidder who knowingly participates in a

communication that is prohibited by this subsection shall be disqualified from the contract award.

- b. During the evaluation of any solicitation of proposal, no party who is financially interested in a proposal, an officer or employee of that party, placement agent or a person retained or employed by that party, may knowingly communicate with any Board Member concerning any matter relating to the transaction or its evaluation, unless the financially interested party discloses the content of the communication in a writing addressed and submitted to the Executive Director and the Board prior to the Board's action on the prospective proposal. This subsection shall not apply to communications that are part of a noticed board meeting, or as provided in subsection c of this section.
  1. The writing shall disclose the date and location of the communication, and the substance of the matters discussed. The Board shall prescribe other procedures concerning this disclosure.
  2. Any Board Member who participates in a communication subject to this subsection shall also have the obligation to disclose the communication to the Executive Director and the Board, prior to the Board's action on the proposal. The Board shall prescribe procedures for this disclosure, including procedures to apply to Board Members who fail to disclose communications as required by this subsection.
  3. Consistent with its fiduciary duties, the Board shall determine the appropriate remedy for any knowing failure of a financially interested party to comply this subsection including, but not limited to, outright rejection of the prospective proposal, reduction in fee received, or any other sanction.
  4. The communications disclosed under this subsection shall be made public, either at the open meeting of the Board in which the proposal is considered, or if in closed executive session, upon public disclosure of any closed executive session votes concerning the proposal.
- c. The procedures and prohibitions prescribed by this section shall not apply to:
  1. Communications that are incidental, exclusively social, and do not involve the System or its business, or the Board or staff member's role as a System official.
  2. Communications that do not involve the System or its business and are within the scope of the Board or staff member's private business or public office wholly unrelated to the System.

10. Proposals will be evaluated using various criteria, including but not limited to:

- a. Bidder's demonstrated understanding of the problems and the needs of the solicitation as outlined in the proposal as well as the perceptiveness to address areas not specifically identified.
- b. Soundness of the bidder's approach to the problems and needs presented by the proposal including methodology for achieving specific tasks and objectives.
- c. Experience and capacity of bidder including recent, related experience and performance, qualification of personnel and bidder's ability to commit capable staff to support the project requested by the proposal.
- d. Cost effectiveness and reasonableness of bidder's fees.

## **Rationale for Establishing Alternative Process for Selection of Certain Private Equity, Private Credit and Private Real Estate Strategies**

Certain investment strategies that the Oklahoma Police Pension Retirement System Board of Trustees (Board) have determined to be appropriate and prudent as part of their long-term strategic investment plan are primarily organized as closed end Limited Partnerships or Limited Liability Companies with limited offering periods. The nature of these investments allows for a very short window of opportunity in which to invest. The primary areas where this type of fund structure exists are private equity, private credit, as well as certain real estate and natural resource funds.

A fund selection process that requires solicitation of proposals on a traditional competitive bid basis can severely limit or hinder the ability of the Board to prudently invest in closed end funds with limited offering periods. Best practices in the due diligence and selection of this type of offering require the ability to conduct on-going prospective due diligence in order to make timely decisions when fund options become available. Because of the short window of opportunity available to make investment decisions with respect to this type of offering and the limited capacity of these offerings, a fiduciary must be in a constant search process. Further, each closed end fund is unique in its style, strategy, focus, and timing of investment.

As such the Board finds that the current competitive bid process, adopted by the Board, is not conducive to these offerings in that there are not numerous vendors offering the same or similar products at the same time. Therefore, the Board establishes a selection process for closed end funds with limited offering periods that does not require the issuance of a formal Request for Proposal as is described below, consistent with the authority granted to the Board pursuant to 11 OS section 50-105.4D.

### **Evaluation and Due Diligence Process**

In the development of a diversified private markets investment program, it is the intent of the Board, pursuant to recommendations made by the investment consultant, to implement this program through the recommendation of various investment offerings that are typically structured as illiquid limited partnership interests. Recommended investments may be in individual limited partnerships or in vehicles that invest in multiple partnerships (Fund-of-Funds or Sub-Advisory relationships).

The Investment Consultant's due diligence process and ultimate fund selection criteria considers a variety of attributes of individual managers. This enables the Investment Consultant to recommend funds that show the greatest potential for superior future financial returns. In most cases, these attributes would apply to both individual partnership investments as well as Fund-of-Funds/sub advisory relationships. The following outlines the qualities and attributes to be sought in identifying private equity funds for the Board's consideration.

1. **People / Organization** – Stable, established organization with a committed team that has successfully worked together for a significant period of time, indicating high compatibility and low organizational risk. Key areas of focus include:

- a. Assets under management.
  - b. Industry presence / tenure.
  - c. Significant GP commitment to the fund.
  - d. Significant and relevant experience of senior professionals.
  - e. Low turnover rates and significant tenures.
  - f. Alignment of interests, including:
    - 1. Reasonable distribution of ownership among senior professionals.
    - 2. Reasonable compensation, including the sharing of carried interest.
    - 3. Regular performance reviews.
  - g. Sufficient staffing to support the attention needs of the portfolio.
  - h. Good "bench strength" and a business that is not overly reliant on any single person.
  - i. With respect to "next generation" funds, a history of the principals working together as a team and a clear attribution of prior success to that team.
2. **Operational Expertise** - Operational expertise, either internal or through some proprietary relationship, especially that gained through prior difficult market cycles or leveraged situations. Exceptional returns are driven by post-acquisition operational improvements and not so much by financial engineering. In addition, operational expertise can be crucial in attracting deals and facilitating transactions.
3. **Independence** – Preference is given to truly independent managers because of the lower tendency for conflicts of interests, widely variable investment focus, and potential misalignment of interests among the principals. In general, situations to be avoided include:
- a. Funds sponsored by investment banks or large financial institutions engaged in other activities focused on investment or financing businesses.
  - b. Firms with large or controlling LPs.
4. **Investment Strategy/Philosophy** - A clearly defined and articulated strategy that is supported by the experience of the firm's professionals and consistently applied. Preference is given to firms whose funds are appropriately sized for the stated strategy since they are better able to deliver the type of return required from this illiquid asset class.
5. **Track Record** - Manager track records are examined as an indicator of their ability to add value to companies in which they invest. However, it is often difficult to evaluate managers on Fund returns alone, because data is often immature. As such, considerable emphasis is placed on qualitative factors (i.e. adherence to strategy; team dynamics; etc.). It is important that the track record provide evidence that the strategy employed has been successful and will likely remain so in the future. The track record information will be reviewed in the following manner:

- a. *Historical rates of return:* Internal Rates of Returns (IRR) are calculated on a consistent basis to assure accuracy and some degree of comparability between managers. Returns are analyzed in a variety of ways: absolute and relative to benchmarks; realized and unrealized; returns attributable to current principals; returns attributable to deals following the current strategy, etc. In addition to IRRs, cash-on-cash returns are also considered.
  - b. *Historical quality of returns:* The quality and consistency of returns are as important as the absolute level of returns. Therefore, examination will be conducted of the concentration of returns and the timing of capital deployment and exits. The manager's rate of deploying capital in past funds is analyzed against the size of the new fund and any difference between past and prevailing market conditions, which may affect future deployment.
  - c. *Record of realizations:* A record of realizations from past investments shall be reviewed. This provides a valuable measurement of returns; it indicates a manager's ability to properly manage exits; and it lessens the time required by the manager to manage past funds' investments (where such activity would dilute their attention to the new fund).
6. **Financing Experience** - Firms with solid reputations in the leveraged finance markets, proven ability to access debt and other capital, and a demonstrated ability to manage through difficult periods in the capital markets cycle. A manager's history of dealing with problem investments, loan workouts, and restructurings will be addressed.
7. **Deal Flow / Research** - Firms with proprietary sources of deal flow and, therefore, the ability to make acquisitions at reasonable multiples. In addition, preference will be given to firms that perform target-market research to help focus investment activity and deal sourcing.
8. **Decision Making** - Defined processes and shared decision-making. A concentration of decision-making power is not desirable. A diversity of backgrounds and experience within a firm may add to the quality of decision-making.
9. **Investor Base** - Firms that have a significant number of returning institutional LPs. It can be a warning sign when LPs opt not to return or reduce their commitments to subsequent funds. The quality and diversity of the investor base is also considered.
10. **Terms** - Investments will have suitable financial terms (management fees, carried interest, clawback, key man, etc.) and governance provisions, which will be properly reflected in the underlying partnership documents.

### **Process for Investment in Closed End Funds with Limited Offering Periods**

Pursuant to the recommendation of the Investment Consultant to the Board, the following process in the selection of these types of funds is necessary and prudent for the Board to most effectively carry out its fiduciary responsibility in the on-going development and implementation of its long-term investment strategy. Approval authority for all investment decisions will continue to rest solely with the Oklahoma Police Pension Retirement System Board of Trustees. Therefore, the OPPRS Board of Trustees will adhere to the following process:

1. The Investment Consultant will submit investment recommendations to the OPPRS Board of Trustees following due diligence of candidate fund(s) that fit within strategic guidelines. The recommendation from the Investment Consultant will include:
  - a. Summary Recommendation with recommended commitment amount and anticipated cash flow requirements.
  - b. Evaluation Report.
  - c. Timeframe for decision.
2. Following the submission of the Investment Consultant's recommendation, the OPPRS Board of Trustees will then review the investment recommendation and will take one of the following actions within the time allocated for decisions:
  - a. Approve commitment.
  - b. Request additional information.
  - c. Determine not to proceed with investment.