



TREASURY DEPARTMENT
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG, PA 17120

THE STATE TREASURER

January 17, 2017

MEMORANDUM

To: Christopher B. Craig, Chief Counsel
Pennsylvania Treasury

From: Joseph M. Torsella, State Treasurer

Subject: **Prohibition of Placement / Solicitor-Agent Agreements**

By this memorandum, you are hereby directed to implement and communicate a prohibition on the continued or future use of placement / solicitor-agent agreements for all contracted persons who are entrusted with the care and investment management of Commonwealth Funds on behalf of Pennsylvania Treasury. This policy is to be implemented with immediate effect, and to be included in all future investment contracts, renewals or any amendments thereto. This policy shall apply to all legacy investment agreements containing a provision for the compensation of a placement or solicitor agent based on the amount of funds managed on behalf of Treasury, in order for such managers remain eligible to manage public funds on behalf of Treasury,

I note that though the Securities Exchange Commission has recognized that placement / solicitor agents may be useful so long as they are registered and regulated, the SEC has also observed that placement / solicitor agents have been implicated, nationally and in Pennsylvania, in improper conduct involving actual or perceived bias and favoritism. The improper use of placement / solicitor agents has led states such as California, North Carolina and the New York City Pension Boards to adopt limits on the use of placement / solicitor agreements involving the handling of public funds. As stated by the North Carolina Treasurer, if placement / solicitor agents are retained by investment managers "to utilize a pre-existing relationship between the agent and public officials, the solicitor / placement agent does not serve any useful function, and instead could cause a fund to make decisions on factors other than the potential investment's strategy and expected performance." I agree. I also note that the discontinuance of placement / solicitor agent agreements should create cost-savings opportunities for taxpayers, capturing the savings associated with avoided placement / solicitor agent expenses, and that studies have associated the use of placement/solicitor agent agreements with lower investment performance.

As Treasurer, I intend to maintain an "open-door" policy involving the consideration, evaluation and adoption of all investment opportunities and proposed strategies from financial advisors and fund managers. Simply stated, it is not necessary to have a pre-existing relationship with the Treasurer or any member of Treasury investment staff. All proposed investment

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opportunities will be considered, yet subject to a rigorous due-diligence legal and financial review. Such a review will consider the manager's past performance, history, investment cost, compatibility with Treasury's investment policy and objectives, risk and expected return. All investment decisions will be made consistent with Treasury's fiduciary duty to the Commonwealth.

Thank you for your immediate attention to this directive.

Submitted:

Joseph M. Torsella, State Treasurer

Tuesday, January 17, 2017



January 17, 2017

[REDACTED]

Re: Solicitor/Placement - Agent Agreement Prohibition

Dear [REDACTED]

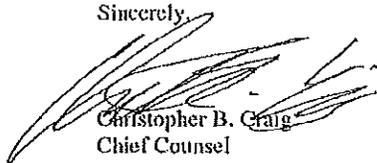
Joseph Torsella has assumed the Office of Pennsylvania Treasurer. As a first act, Treasurer Torsella has directed implementation of the Department's new policy prohibiting the use of and payment to any solicitor / placement-agent based or premised upon the continued management of Commonwealth assets by any investment manager or fund. While Treasury makes no legal comment as to the appropriate nature of any past agreement, it is the intention of Treasurer Torsella to convey a clear message to the investment community that the Department will maintain an "open-door" policy for the consideration and evaluation of all investment management proposals, thereby eliminating any perceived or actual need of a solicitor / placement-agent agreement.

All investment proposals submitted to Treasury will be considered and evaluated solely on their compatibility with Treasury's investment policy, stated investment objectives, cost, manager's experience and past financial performance. To this end and in order to remain eligible to continue to oversee and manage Commonwealth funds on behalf of Pennsylvania Treasury, you are requested to: (1) disclose the use, existence of and provide a copy of, any solicitor/ placement-agent agreement associated with the investment or management of any Commonwealth funds on behalf of Pennsylvania Treasury; and (2) if there is such an agreement, please provide a detailed statement as to when and how any such existing agreement will be discontinued within thirty days. Please direct your response to:

Pennsylvania Treasury Department
Office of the Chief Counsel
127 Finance Building
Harrisburg, Pennsylvania 17120

The discountenance of all solicitor/ placement-agent agreements associated with the management and investment of public funds on behalf of Pennsylvania Treasury and the formal adoption of a rigorous due diligence and financial evaluation process for all proposed investment management strategies is a priority of Treasurer Torsella. Accordingly, your response to this request on or before Friday, February 10, 2017 is sincerely appreciated.

Sincerely,



Christopher B. Craig
Chief Counsel

cc: The Honorable Joseph Torsella, State Treasurer