

REQUEST FOR PROPOSAL
CITY OF SPOKANE
SPOKANE EMPLOYEES' RETIREMENT SYSTEM
DEFINED BENEFIT PLAN
INVESTMENT CONSULTING SERVICES

I. GENERAL INFORMATION

The Spokane Employees' Retirement System (SERS) is a defined benefit plan with approximately \$290 million in assets. The plan is currently 58.2% funded under GASB 67 using a 7.5% rate of return. SERS is focused on providing the promised benefits in a sustainable and affordable manner that will ensure it remains a valuable benefit to the employees of the City of Spokane.

A list of current money managers and the fund's target asset allocation is included at the end of this RFP along with the investment policy (see Appendix A).

II. SCOPE OF SERVICES

The Scope of Services will cover five years and include, but is not limited to, the following:

- A. Asset Allocation Study (to be conducted at the commencement of the engagement)
- B. Manager Searches
- C. Ongoing Consulting Services:
 - Quarterly and annual investment performance reports
 - Quarterly onsite performance presentations to the Board on the last Wednesday of February, May, and August and the first Wednesday of December.
 - Annual review of investment policies
 - Quantitative and qualitative analysis of investment strategies as needed
 - Occasional meetings with the investment committee, management, and staff
- D. Serve as a fiduciary to the plan.

III. SUBMISSION OF PROPOSAL

Proposals shall be delivered to the City no later than **Monday, June 22, 2015 at 5PM PDT**. The City reserves the right to disqualify any proposals received late. Proposals may be submitted electronically, but must also include ten (10) hard copies of your proposal in a sealed envelope. Proposals should be addressed to:

Spokane Employees' Retirement System
Proposal for SERS Investment Consulting Services
808 West Spokane Falls Boulevard
Suite 604
Spokane, WA 99201

Electronic submissions can be submitted to ptencick@spokanecity.org.

PROPOSAL QUESTIONS

I. OVERALL ORGANIZATION

Note: When answering the following proposal questions, please include information about the office that will be servicing SERS and firm-wide information, if applicable (e.g. the servicing office has 10 consultants and the firm has 50).

- 1) Please provide a brief history of your firm.
- 2) What is the present ownership of your organization? Please be specific.
- 3) Besides consulting, what other investment-related services do you provide to clients?
- 4) Conflicts of Interest
 - a) How does your firm manage conflicts of interest? What controls, policies, and procedures are in place to insure client interests come first?
 - b) Does your firm or any affiliate of your firm provide trust, investment management or securities brokerage services? If so, please explain.
 - c) Does your firm or any of its employees receive any form of compensation from any investment managers? If so, please explain.
 - d) Please provide a copy of your most recent form ADV parts I and II (only include in electronic submission).
- 5) What are your strategic growth initiatives?
- 6) Is the firm, including its directors, officers or employees party to any lawsuits, regulatory investigation, or governmental investigation? If so, please describe.

II. INVESTMENT CONSULTING

The remainder of this questionnaire applies to your firm's investment consulting practice unless otherwise indicated.

- 1) What is the overall size of your consulting practice (number of clients, assets under advisement, type of plan)?
- 2) What is the average tenure of each client? How many engagements have been won and lost in each of the past three years?
- 3) What investment consulting services do you provide? Of these, which separate you from other consulting firms?
- 4) What is your experience with plans of our size (\$250M to \$500M)? What unique challenges do you feel plans of this size face and how would you address them?

5) Resources

- a) What is the total size of your staff? How many of these are consultants? How many are support, and what support services do they provide?
- b) What is the average number of clients per consultant (by count and by assets advised)? How many clients does the proposed lead consultant currently advise (by count and by assets advised)?
- c) Please attach biographical information for the lead consultant and any other staff that will be working directly on the account.

III. CLIENTS

1) Demographics

- a) How many governmental defined benefit (DB) plans do you provide consulting services for? What are the total assets under advisement?
- b) How many non-governmental DB plans do you provide consulting services for? What are the total assets under advisement?
- c) How many (in total) institutional investment clients do you provide consulting services for? What are the total assets under advisement?
- d) Please provide a representative list of your investment consulting clients.

2) References

- a) Please provide three references. To the extent possible, include governmental defined benefit plans for which you provide consulting/performance measurement services. List the organization, contact name, address, e-mail and telephone number.
- b) Do you give SERS permission to contact other clients not specifically provided as references?

3) What would your clients say are your greatest strengths and weaknesses?

IV. CONSULTING SERVICES

1) Manager Selection

- a) Please provide an overview of your management selection process, including initial and ongoing due diligence practices. Is the process uniform across all assets classes? If not, please explain the differences.

- b) What are the criteria used to determine your recommend, watch, and/or terminate lists? How often are these lists reviewed?
- c) Investment Manager Database
 - i) Which database(s) do you use? Who supplies and verifies the data in the database(s)?
 - ii) How many unique investment managers are in your database(s)? Please provide a breakdown of managers in the following assets classes:
 - (1) Equities (Long only)
 - (a) US
 - (b) International
 - (c) Emerging Markets
 - (d) Global
 - (e) Other (Please describe)
 - (2) Fixed Income (Long only)
 - (a) US Core
 - (b) US High Yield
 - (c) US TIPS
 - (d) International
 - (e) Emerging Markets
 - (f) Global
 - (g) Other (Please describe)
 - (3) Real Estate
 - (a) REITs
 - (b) Private Real Estate
 - (c) Other (Please describe)
 - (4) Hedge Funds
 - (a) Long/Short
 - (b) Absolute Return
 - (c) Fund of Funds
 - (d) Other (Please describe)
 - (5) Commodities
 - (a) Traded
 - (b) Funds
 - (c) Direct
 - (6) Alternatives
 - (a) Direct Private Equity
 - (b) Private Equity Fund of Funds
 - (c) Other (Please describe)
 - (7) Other (Please describe)

2) Asset Allocation

- a) Please provide an overview of your asset allocation process.
- b) What methods are used to develop return, risk, and correlation assumptions?
- c) To what extent are risk factors beyond volatility used in creating your optimization models?
- d) How are the plan's liabilities incorporated into the model?
- e) What kind of sensitivity and/or scenario analysis is provided?
- f) What rebalancing strategies are recommended and how do they impact the asset allocation model?

3) Performance Measurement

- a) How frequently do you produce performance evaluation reports for your clients?
- b) What is the source of your performance data? How is it verified?
- c) At what point following quarter end are performance reports generally available?
- d) To what extent can your performance reports be customized to meet a particular client's needs?
- e) Please provide a sample performance report.

V. FEES

- 1) Please provide your proposed fee schedules.
- 2) To the extent your firm has agreed-upon retainer fees, what services are typically covered by the retainer? What services are outside the retainer and what are the associated fees for such services?
- 3) To what extent are the quoted fees variable (e.g. based on the number of investment managers, manager searches, Board presentations, etc.)?

VI. OTHER (OPTIONAL)

There are two additional benefit plans that currently engage an investment consultant. The City of Spokane offers its employees a 457 defined contribution plan and SERS administers a closed defined benefit plan for Law Enforcement Officers and Firefighters (LEOFF). These plans are overseen by two separate and unique boards from that of SERS plan.

LEOFF Plan – A defined benefit plan that is closed to new entrants, and has \$24M in assets invested 100% in fixed income through a single separate account. The plan is only expected to require performance reporting services, but may conduct a manager search if performance requires.

457 Defined Contribution Plan – The plan has roughly 2,200 participants with investments totaling \$177M. The plans investment options include 10 target date funds, 24 mutual funds, and a self-directed brokerage window. The plan record keeper is ICMA-RC. The services the plan requires are performance reporting, plan design review, and manager searches, as necessary. Committee presentations are held on the same day as the SERS plan.

Currently, these two plans have engaged the same consultant as the SERS plan; however, there is no requirement for them to do so. If you are interested in providing these consulting services **in addition to** the SERS plan, please provide the information requested below. The information below is supplementary and the inclusion or exclusion of this section will not adversely impact your response to the SERS portion of the RFP.

- 1) What are the differences in the consulting and support staff that will service these plans?
- 2) How does your performance management process differ for DC plans?
- 3) How does your manager search process differ for DC plans?
- 4) What are the additional fees required to provide the required services for these plans?
- 5) Is there any additional information you would like us to consider regarding your ability to provide consulting services for these plans in addition to the SERS plan?

INQUIRES

Inquiries and other communications about this Request for Proposals shall be through the Retirement Director. Direct communications with other management or elected officials may be grounds for rejecting a proposal unless permission is granted by the Retirement Director.

All inquires must be in writing. Inquiries received by 5PM PDT on Friday, May 29, 2015 will be answered and posted on the SERS website (<http://www.spokanesers.org/>) on Wednesday, June 2, 2015. Inquiries should be addressed to:

Spokane Employees' Retirement System
Inquiries for SERS Investment Consulting Services
808 West Spokane Falls Boulevard
Suite 604, City Hall
Spokane, WA 99201

Electronic inquiries can be submitted to ptencick@spokanecity.org

ADDITIONAL INFORMATION

A. REJECTION OF PROPOSALS

The City reserves the right to reject any and all proposals and to waive informalities or irregularities in a proposal or in the proposal process. The City reserves the right to split or make the award in any manner deemed most advantageous to the City at its sole and exclusive discretion.

B. PREPARATION OF PROPOSAL

The City shall not be liable for any costs incurred by a Proposer in preparing or submitting a proposal. Proposals should be prepared simply and economically, providing a straight-forward, concise description of the Proposer's capabilities to satisfy the City's requirements. Submitted materials become the property of the City and will not be returned. Submitted proposals constitute public records which are subject to review and copying by a person making an appropriate request for public record.

C. PROPOSAL EVALUATION

The City does not intend to award a contract solely on the basis of price. Evaluation criteria will include but not be limited to:

1. Firm Resources
2. Skill of Assigned Personnel
3. Investment Consulting Processes
4. Potential Conflicts of Interest
5. Fees

D. ORAL PRESENTATIONS

The City, at its sole discretion, may ask individual proposers to make oral presentations without charge to the City. Such presentations provide an opportunity for the proposer to clarify its proposal to insure a mutual understanding of its contents.

E. GUARANTEE OF GOOD FAITH AND FIRM PRICE

Proposals shall remain in effect for a minimum of sixty (60) days from the submission deadline date unless extended by mutual consent.

CONTRACT REQUIREMENTS

A. INSURANCE

During the term of the contract, the firm shall maintain in force at its own expense, the following insurance coverages:

1. Worker's Compensation Insurance in compliance with RCW 51.12.020, which requires subject employers to provide workers' compensation coverage for all their subject workers.

2. General Liability Insurance on an occurrence basis, with a combined single limit, of not less than \$1,500,000 each occurrence for bodily injury and property damage. It shall include contractual liability coverage for the indemnity provided under the contract. It shall provide that the City, its officers, employees and agents are additional insureds but only with respect to the firm's services to be provided under the contract.
3. Automobile Liability Insurance with a combined single limit, or the equivalent, of not less than \$300,000 each accident for bodily injury and property damage, including coverage for owned, hired or non-owned vehicles.
4. Professional Liability Insurance with a combined single limit of not less than \$2,000,000 each claim, incident or occurrence. This is to cover damages caused by the error, omission, or negligent acts related to the professional services to be provided under the contract. The coverage must remain effect for at least three (3) year(s) after the contract is completed.

There shall be no cancellation, material change, reduction of limits or intent not to renew the insurance coverage(s) without 30 days written notice from the firm or its insurer(s) to the City;

As evidence of the insurance coverages required by the contract, the firm shall furnish acceptable insurance certificates to the City at the time the firm returns the signed contract. The certificate shall specify all of the parties who are additional insured, and will include applicable policy endorsements, the 30 day cancellation clause, and the deduction or retention level. Insuring companies or entities are subject to City acceptance. The firm shall be financially responsible for all pertinent deductibles, self-insured retentions, and/or self-insurance.

B. BUSINESS REGISTRATION REQUIREMENT

Section 8.01.070 of the Spokane Municipal Code states that no person may engage in business with the City without first having obtained a valid annual business registration. The firm shall be responsible for contacting the State of Washington Business License Services at <http://bls.dor.wa.gov> or (800) 451-7895 to obtain a business registration. If the firm does not believe it is required to obtain a business registration, it may contact the City's Taxes and Licenses Division at (509) 625-6070 to request an exemption status determination.

C. ANTI-KICKBACK

No officer or employee of the City of Spokane, having the power or duty to perform an official act or action related to this contract shall have or acquire any interest in the contract, or have solicited, accepted or granted a present or future gift, favor, service or other item of value from or to any person involved in the contract.

Appendix A

STATEMENT OF INVESTMENT POLICY Spokane Employees' Retirement System

Date Approved: December 3, 2014

POLICY OVERVIEW

The Board ("Board") of the Spokane Employees' Retirement System ("SERS") hereby establishes this Statement of Investment Policy ("IPS") for the investment, in accordance with applicable federal, state and municipal laws and regulations, of SERS assets ("Fund"). This IPS defines the investment policies for the management and oversight of the Fund for SERS.

The guiding principles with respect to the investment of the Fund are to preserve the ability for the Fund to meet its long-term liabilities within prudent risk parameters. Toward that end, the Fund has established the following goals:

- 1) Accumulate sufficient assets through a diversified portfolio of investments to pay all current and future retirement benefits and expense obligations of the Fund.
- 2) Obtain investment returns that allow for ad hoc increases in retirees' annuities so as to maintain the purchasing power of their benefit.
- 3) Establish an asset allocation policy that is expected to meet the required rate of return over long periods of time while minimizing volatility.
- 4) Minimize the costs associated with implementation of the asset allocation through the efficient use of resources.
- 5) Operate solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

ROLES AND RESPONSIBILITIES

The Board, as fiduciary, is responsible for establishing the IPS, reviewing the IPS as required, and making changes as necessary. The Board is also responsible for selecting and monitoring the investment consultant, investment managers, custodian and any other service providers necessary in the fulfillment of this policy and the Fund objectives. Responsibility for day-to-day administration and implementation related to the IPS may be delegated to the Chief Investment Officer (CIO) and/or other SERS staff. Responsibilities of the CIO (and/or SERS staff at the direction of the CIO) include:

- 1) Implementation of the Fund's investment goals, objectives and policies.
- 2) Selection, hiring and firing of the Fund's investment managers.
- 3) Selection, hiring, and firing of the Fund's service providers.
- 4) Monitoring and evaluating performance results to assure that the policy guidelines are being met.

The Board and staff may also delegate certain responsibilities to professional service providers in various fields. These experts include:

- 1) **Investment Consultant.** The investment consultant will assist in: 1) establishing investment policy; 2) designing objectives and guidelines; 3) selecting investment managers; 4) reviewing such managers over time; 5) measuring and evaluating investment performance; and, 6) other tasks as deemed appropriate. It is expected that the investment consultant will be selected by the Board and will serve as a co-fiduciary on all investment related decisions and will have the proper insurance to cover exposure.
- 2) **Investment Manager.** The investment manager has discretion to purchase, sell and/or hold the specific securities that will be used to meet the Fund's investment objectives while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement and in their specific manager guidelines.
- 3) **Custodian.** The custodian will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. The custodian will provide at a minimum monthly reporting of assets and transactions and provide any additional data requests.
- 4) **Other.** Additional specialists may be employed to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

Board and staff do not maintain any control over the individual investment decisions made by the investment managers. The investment managers will be held responsible and accountable to achieve the objectives outlined in their specific investment guidelines as provided in the agreement, prospectus or other such documentation.

All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

INVESTMENT OBJECTIVE

The investment strategy of the Fund has been established to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income. The Fund currently has a long term actuarial expected rate of return of 7.50%. In consideration of this expected return, the primary investment management objectives for the Fund assets shall be to maximize total return over time at an acceptable level of risk and to provide relatively smooth and predictable distributions to the beneficiaries. Additionally, the Fund will be invested according to the following general principles:

- Investments shall be made solely in the interest of and for the beneficiaries of the Fund;
- Investment of the Fund shall be diversified as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so;
- Risk shall be evaluated in the context of the portfolio in its entirety with particular focus on how the various asset classes and investment strategies correlate to one another;
- Care will be taken to provide adequate liquidity to meet all current spending obligations of the Fund;
- Cash is to be employed productively at all times, to provide safety, liquidity, and return; and,
- The investment manager(s) should, at all times, be guided by the principles of “best price and execution” and that the Fund's best interests are the primary consideration.

ASSET ALLOCATION GUIDELINES

To achieve its investment objectives, the Fund will be allocated among a number of asset classes. These asset classes may be broadly defined to include global fixed income, absolute return, global equity, long/short equity and fixed, special opportunities, commodities and real estate. The purpose of allocating across these asset classes is to ensure the proper level of diversification within the Fund and improve the risk-adjusted efficiency of the investment portfolio. The following table outlines the Fund's target asset allocation along with minimum and maximum allocation rebalancing guidelines.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Cash	0%	1%	10%
Global Fixed Income	10%	15%	20%
Absolute Return	5%	10%	15%
Global Equity	40%	50%	60%
L/S & Special Opportunities	10%	14%	20%
Commodities	0%	4%	8%
Real Estate	0%	6%	10%

REBALANCING OF FUND ASSETS

The asset allocation exposures will be closely monitored with the understanding that the various asset classes may perform differently and that the relative attractiveness of asset classes may vary over time. The Fund's allocation will be reviewed quarterly, as well as during periods of severe market change to assure that allocations remain within their respective guidelines and consistent with the long-term objective of the Fund. If an asset class is outside the allowable range, the Board, or its designee, may take appropriate action to redeploy assets. In any investment rebalancing situation the board will consider market conditions, costs and other investment related factors. In certain circumstances, when appropriate and at the Board's discretion, the Fund may be allocated outside the ranges provided in the Guidelines.

INVESTMENT PERFORMANCE REVIEW AND EVALUATION

Performance reports shall be compiled at least quarterly and presented to the Board for review. The investment performance of the total Fund, as well as the asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board recognizes the long term nature of the Fund's objectives and the variability of market returns. Periodic underperformance relative to any criteria outlined in this IPS will not necessitate the termination of an investment option.

As referenced above, the Fund's total account performance objective is to achieve the long-term actuarial rate of return and to minimize the risk of failing to meet this expected return. To that end, managers have been selected based on their perceived ability to meet and or exceed predetermined benchmarks. The total return of the Fund will be measured against a passive policy index of comparable risk comprised as follows:

Policy Index: 1% US 90 Day T-Bill, 15% Barclays US Aggregate Bond Index, 5% Barclays Corporate HighYield Index, 5% Barclays Global Aggregate Bond Index, 34% S&P 500 Index, 8% Russell Mid Cap

Index, 5% Russell Small Cap Index, 17% MSCI ACWI ex-US Index, 4% S&P GSCI Index, 3% NAREIT Composite Index and 3% NCREIF Property Index.

Additionally, the Board shall compare the performance of each individual investment alternative against the performance of relevant index benchmarks and peer groups. The Board shall track the investment vehicle's performance relative to the benchmark, and the degree to which variance in the vehicle's performance can be explained by variance in the performance of the benchmark. Initially, indices used for comparison purposes shall include the following:

<u>Investment Category</u>	<u>Relevant Benchmark</u>
US Large Capitalization Stocks—Blended Style	S&P 500 Index
US Large Capitalization Stocks—Growth Style	Russell 1000 Growth Index
US Large Capitalization Stocks—Value Style	Russell 1000 Value Index
US Small Capitalization Stocks—Blended Style	Russell 2000 Index
US Small Capitalization Stocks—Growth Style	Russell 2000 Growth Index
US Small Capitalization Stocks—Value Style	Russell 2000 Value Index
US Mid Capitalization Stocks—Blended Style	Russell Mid Cap Index
US Mid Capitalization Stocks—Growth Style	Russell Mid Cap Growth Index
US Mid Capitalization Stocks—Value Style	Russell Mid Cap Value Index
Foreign Large Capitalization Stocks - Blended Style	MSCI ACWI ex-US Index
Foreign Large Capitalization Stocks - Value Style	MSCI ACWI ex-US Value Index
Foreign Large Capitalization Stocks - Growth Style	MSCI ACWI ex-US Growth Index
Emerging Market Large Capitalization Stocks	MSCI Emerging Markets Free Index
Real Estate Investment Trusts (REITS)	FTSE NAREIT Index
Global Commodities	S&P GSCI Index
Long/Short Growth, Special Opportunities	S&P 500 Index
US High Yield Bonds	Barclays US Corporate High Yield Index
Absolute Return	Barclays Aggregate Bond Index
Intermediate Term Bonds	Barclays Aggregate Bond Index
Global Bonds	Barclays Global Aggregate Bond Index
Short Duration Bonds	Barclays US Aggregate 1-3Yr Bond Index
Treasury Inflation Protected Securities	Barclays U.S. TIPS Index
Money Market	90-Day U.S. Treasury Bills

Notwithstanding this initial designation, the Board may change indices used for comparison if it is determined that a different index provides a more useful or appropriate benchmark for any designated investment vehicle.

If the net of fee performance of an actively managed investment option lags significantly behind that of the representative benchmark index over a trailing five year period and the option's performance places it significantly below category averages, the Board may designate the option as "on watch" and, in so doing, shall endeavor to investigate why the option's relative performance has lagged; and determine whether the option continues to be an appropriate investment for the Fund.

If a statistical analysis of an indexed/passively managed investment option indicates that the option is not performing similarly to its benchmark, the Board may designate the option as "on watch" and, in so doing,

shall endeavor to investigate why the invest performance has varied from the benchmark; and determine whether the option continues to be an appropriate investment for the Fund.

In addition to net investment performance, the Board will also review the investment products' risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Risk/return ratios such as Sharp or Treynor Ratios
- Up market and down market performance
- Other statistical measures such as Beta and Alpha

The investment options will also be monitored on an ongoing basis for material changes such as personnel departures, research capability adjustments, organizational changes, or alterations in investment style, philosophy, or strategy, as well as adherence to stated guidelines.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Board will review the IPS annually, or more frequently if conditions warrant.

<u>Investment Category</u>	<u>Target Allocation</u>
US Large Cap Equity	20.0%
US Mid Cap Equity	8.0%
US Small Cap Equity	5.0%
International Equity	17.0%
Core Bonds	5.0%
International Fixed Income	5.0%
High Yield Bonds	5.0%
Real Estate Investment Trusts (REITS)	3.0%
Private Real Estate	3.0%
Commodities	4.0%
Long/Short Growth	9.0%
Special Opportunities	5.0%
Absolute Return	5.0%
Capital Preservation	5.0%
Cash	1.0%