

District of Columbia Retirement Board

**900 7th Street, N.W.
Suite 200
Washington, D.C. 20001**

Request for Proposal

General Investment Consulting Services

Solicitation #DCRB-10-111709-I

Issue Date:	November 17, 2009
Question Cut-Off Date:	December 1, 2009
Proposal Due Date/Time:	December 29, 2009 at 5:00 p.m. EST

Prospective offerors who have received this solicitation from a source other than the issuing office of the District of Columbia Retirement Board should immediately contact the procurement officer and provide contact name and mailing address in order that any amendments or other communication related to the solicitation may be forwarded in a timely fashion. Any prospective offeror who fails to notify the procurement officer with this information assumes complete responsibility in the event that it does not receive communication about this solicitation before or after the due date.

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- A. Fee Schedule
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1.0 Introduction

The District of Columbia Retirement Board (the “Board”) was established by the U.S. Congress on November 17, 1979, pursuant to the District of Columbia Retirement Reform Act (93 Stat. 866, P.L. 96-122), codified at D.C. Code § 1-701 et seq. (2001 Ed.), (the “Reform Act”). The Reform Act established the Board as an independent agency of the District of Columbia government (“District”) with exclusive authority to manage and control the assets of the District of Columbia Police Officers and Firefighters’ Retirement Fund, and the District of Columbia Teachers’ Retirement Fund (collectively, the “Funds”). Provisions of the Reform Act are very similar, and in some instances, identical to the Employee Retirement Income Security Act (“ERISA”).

Under the Reform Act, the Board has authority to promulgate rules and regulations, adopt resolutions, issue directives for the administration and transaction of its business, and perform such functions as may be necessary to carry out its responsibilities under the Reform Act.¹ The Board is also granted specific authority to enter into contracts with public or private sector entities to the extent necessary to carry out its responsibilities.² Moreover, the Board is authorized to propose its own rules which govern the procurement of goods and services pursuant to its authority to contract.³

The purpose of this solicitation is to obtain the services of an experienced investment consulting firm (“Consultant”) with the skills, expertise and resources to assist and advise the Board in making prudent investment management decisions, to assist and advise its staff in the implementation of such decisions, as well as the evaluation of current and proposed investment strategies, structure and design, and to provide ongoing Trustee and staff education.

2.0 Background and General Information

The Board’s primary mission is to manage and control the assets of the Funds. To assist the Board in managing the assets of the Funds, the Reform Act authorizes the Board to engage the services of competent investment managers, registered under the Investment Advisers Act of 1940⁴ or exempt from registration. In addition to engaging the services of investment managers, each of whom manages a designated portion of the Funds’ assets, the Board also engages a general investment consultant to help formulate and refine realistic investment policies. Watson Wyatt Investment Consulting is the Board’s current general investment consultant. The Board also currently engages The Townsend Group as a specialist consultant for real estate and infrastructure. Pantheon Ventures is manager of the Board’s private equity program. The Plexus Group currently provides the Board with trading cost analysis and measurement services. State Street Bank and Trust Company is the Funds’ custodian and is responsible for providing all record-keeping, performance calculations, and asset valuations. State Street also manages the Board’s securities lending program and the cash portion of the Board’s assets. Clifton Gunderson, LLC, certified public accountants, is

¹ D.C. Code § 1-711(e).

² D.C. Code § 1-711(i)(1).

³ D.C. Code § 1-711(i)(2).

⁴ D.C. Code § 1-711(g).

retained for the purposes of the Board's annual comprehensive audit. EFI Actuaries is engaged as the Board's enrolled actuary to assist with the certification of the annual District contribution amount and the cost of any change in benefits. The Board retains outside counsels to assist with a variety of fiduciary and investment-related matters.

The Board is composed of twelve (12) voting members and one non-voting member. Six (6) members are elected by the active and retired Fund participants (Police Officers, Firefighters and Teachers) of the retirement system; three (3) members are appointed by the Mayor; three (3) members are appointed by the Council of the District of Columbia; and the City Treasurer, a non-voting ex-officio member.

Since inception, the Board has operated under a committee system which provides a two-tiered process for review and analysis of all issues that come before it. The Investment Committee, which is comprised of the full Board (12 members), has jurisdiction over the selection and performance of the general investment consultant. This solicitation has been authorized by the Investment Committee and is designed to elicit information necessary to assess the general investment consulting firm and its resources and staff's qualifications, reasonableness of fees, capacity to perform the required services, and other relevant criteria involved in the search and selection process.

On October 15, 2009, during a regularly schedule meeting of the Board, the Board unanimously approved the recommendation of the Investment Committee to commence a search for a general investment consulting firm. Watson Wyatt, the incumbent, will continue to perform its fiduciary duties to the Funds throughout the search and selection process and is expected to respond to the RFP.

As of September 30, 2009, the Funds had a market value of approximately \$3.7 billion. The current strategic asset allocation targets, adopted by the Board in 2003, are as follows: 40% U.S. equities; 20% non-U.S. equities; 25% fixed income (including infrastructure); 10% private equity (including hedge funds); and 5% real estate. No portion of the Funds is managed internally by the Investment staff.

3.0 Scope of Work

3.1 Investment Policy

The Board seeks to achieve long-term investment returns in excess of the Board's actuarial assumed rate of return, which is currently 7.0%, at a level of risk commensurate with the level of returns and consistent with sound and responsible investment practices.

At least annually, the Consultant shall review the Board's Statement of Investment Policy, Objectives and Guidelines and make recommendations accordingly. The Consultant shall formulate and refine realistic investment policies, taking into consideration the characteristics of the Funds, including actuarial valuation information regarding the Funds, the statutory restrictions on the Funds, and other matters which may impact the Funds' investments. The Consultant shall perform periodic investment performance reviews to determine and ensure conformance with established guidelines.

3.2 Asset Allocation

At least quarterly, the Consultant shall analyze the asset allocation of the Funds' investments, estimate the absolute and relative rates of return of the Funds' investments, monitor and analyze rates of return and volatility of the Funds' investments, and make recommendations for the reallocation of assets when necessary and advise on strategic and tactical investment issues and rebalancing policies.

Every three years, the Consultant shall work closely with the Chief Investment Officer and the enrolled actuary to undertake an Asset/Liability Study and present a written plan proposing the establishment of investment objectives and strategic asset allocation targets to the Investment Committee for approval. The Asset/Liability Study shall take into account the assets and liabilities of the Funds, the Board's risk tolerance and time horizon, global economic trends and events, the Board's liquidity needs, risk budget, and actuarial analysis. The Asset/Liability Study shall, at a minimum, include: a) an analysis of the investment characteristics of available asset classes, including expected returns, risks, and correlation among classes; b) recommendations for an optimal asset allocation for the Board based upon the foregoing, including implementation methodology and timetable for achieving such asset allocation; and c) an assessment of the Board's ability to achieve its long-term investment objectives based on such recommended portfolio(s), including the probability of realizing returns equal to or exceeding the Board's actuarial assumed rate of return and the impact of the recommendations on contribution rates and the Funds' funded ratios.

The Consultant shall assist the Investment Committee and Investment staff in developing an appropriate investment structure within each selected asset class. On an ongoing basis, the Consultant shall provide analysis and advice regarding such investment structures, including internal versus external investment management, active versus passive management, management styles (e.g., growth versus value), capitalization ranges (e.g., small, mid, and large), sector exposures, and the number of investment managers, and make recommendations on the appropriateness of such structures in light of prevailing market conditions, the Board's investment policy, long-term objectives, and budgetary constraints. The Consultant shall present macroeconomic forecasts and advise on integration of such analysis with the Board's strategic plan.

The Consultant shall advise on proxy voting policies and securities lending.

3.3 Manager Searches

The Consultant shall work closely with the Investment staff to develop a search strategy to identify highly qualified investment managers. This assistance shall include, but shall not be limited to, the following services:

- Maintain or otherwise provide access to a robust database of investment managers, which includes their investment strategy and process, investment personnel, audited performance results, clients and fees. Manager information should be available to the Board and Investment staff for a wide range of

investment managers, including domestic and international equity and fixed income managers, and across capitalization and style ranges. The database should include relevant information on small, emerging managers, as well as minority- and women-owned firms. In addition, it is desirable for the database to include information regarding alternative asset class managers, including real estate managers, private equity managers, hedge fund managers, infrastructure managers, currency overlay managers, and options and futures managers. It is also desirable for the Consultant to have the capabilities to conduct its own independent research on investment managers and to have a demonstrated track record in identifying managers who have generated excess returns over their applicable benchmarks.

- Assist the Investment staff and the Investment Committee in conducting manager and custodian bank searches and selection, including but not limited to (i) development of search criteria, (ii) screening prospects and making recommendations of semi-finalists and finalists; (iii) conducting due diligence on potential candidates, (iv) preparation of background materials for the staff and the Investment Committee; (v) conducting interviews of potential candidates with the Investment staff and Investment Committee, and (vi) participating in contract negotiations to effect a fair and reasonable fee.

3.4 Manager Oversight

The Consultant shall continuously monitor and evaluate the Board's investment managers' performance (including net returns and volatility) and portfolio holdings of each investment manager relative to applicable investment guidelines, benchmarks, and objectives. The Consultant shall engage in ongoing discussions with each manager regarding risk controls, investment process, performance and organizational issues, including changes in ownership or key personnel, new investment products, and disclosure issues. The Consultant shall promptly notify the Board of any under-performance, non-compliance, significant changes or adverse events, and provide analysis and advice to the Board on such issues. At a minimum, the Consultant shall conduct annual organizational and performance reviews of each manager, including on-site visits. The Consultant shall recommend best practices for adding or removing managers from the Board's Watch List and follow-up due diligence as appropriate. The Consultant shall also recommend managers for termination.

3.5 Performance Analysis and Reporting

The Consultant shall establish and continuously review the appropriateness of the Total Fund Benchmark, which is based on the Funds' strategic asset allocation targets, for measurement of the Funds' total performance. The Consultant shall periodically review the selection of appropriate benchmarks for each asset class (including alternative asset classes) and each investment manager, including custom benchmarks, if necessary. The Consultant shall access and analyze asset class and individual manager performance against such benchmarks.

The Consultant shall prepare and provide a quarterly Performance Report, developed in conjunction with the Investment staff, to include the following:

- comparison of the Funds' performance against the Total Fund Benchmark for various time periods (short and long-term), highlighting important fundamental characteristics of the Funds versus those of the Benchmark, as well as a peer group comparison of the Funds' performance against that of similar pension funds;
- a breakdown of the Funds' actual asset allocation and investment structure versus the Total Fund Benchmark and target exposures, as well as a comparison of the Funds' asset allocation and investment structure versus that of similar pension funds;
- a regression analysis which quantifies risk and provides an indication of the value added by the investment managers, net of fees. This net active return should be calculated quarterly and tracked over time collectively for the Funds as a whole, for each asset class, and for each individual investment manager;
- a narrative Executive Summary Report which shall accompany the comprehensive analytical Performance Report, describing significant factors contributing to the Funds' absolute and relative performance during the quarter and year; and
- a performance evaluation of each asset class segment and of each investment manager (other than alternative investment managers) relative to its applicable benchmark, performance objective and peer group, including a brief narrative discussion of factors contributing to the segment's and manager's quarterly and annual performance, an attribution analysis detailing the impact of investment style, industry/sector exposure, market timing, and stock selection on performance, and a breakdown and analyses of other risk and portfolio characteristics for each segment and manager, including but not limited to beta, median market capitalization, P/E and P/B ratios, industry exposure, current yield, duration, and credit quality, each relative to applicable benchmarks.

3.6 Training

On an ongoing basis, the Consultant shall conduct educational workshops on specific issues designated by the Investment Committee or staff so that they might properly perform their fiduciary duties.

3.7 Special Projects and Other Services

The Consultant shall provide such other data and assistance as may be necessary to assist the Board in fulfilling its fiduciary responsibilities, including but not limited to assistance and data regarding the further development of the Board's investment program that the Board may from time to time identify as appropriate.

On an ongoing basis, the Consultant shall provide research and reports on various investment topics and keep the Investment Committee and Investment staff apprised of new and innovative investment vehicles and techniques that may be

appropriate for the Board. The Consultant shall provide access to any proprietary web-based investment research reports and analytical tools and software available to other clients.

3.8 Attendance at Meetings

The Consultant must attend all meetings of the Investment Committee (approximately 11 annually; no meetings are generally scheduled in August), which are currently held on the third Thursday of each month and at such other times as may be determined by the Committee Chair. The Consultant shall be available to meet with the Board when necessary, but as a general rule, the Consultant will not be expected to attend separate meetings of the Board. The Consultant shall designate, in writing to the Board, two senior consultants as the firm's representatives. While one may be designated primary consultant for this engagement, the secondary consultant must be fully capable of handling all aspects of the engagement in the absence of the primary consultant. The designation of the representatives shall be subject to Board approval.

The Consultant shall perform other duties or activities as may be required consistent with and contemplated by the foregoing.

3.9 Public Relations

The Consultant shall support the Investment Committee and Board through written and/or oral presentations at meetings with legislative, executive, regulatory, and District and federal officials and staff, as well as other parties, as necessary.

4.0 Term of Agreement

The term of the original Agreement shall be for a three-year period.

5.0 Proposal Specifications

5.1 Submission Deadline

A "letter of interest" is due no later than 5:00 p.m. on December 1, 2009. The completed proposal, which is to include all attachments, including the Proposed Fee Schedule (Attachment A), Representations and Warranties (Attachment B), and the Proposal Questionnaire (Attachment E), must be received no later than 5:00 p.m. on **December 29, 2009**. Any proposal received after the submission deadline will not be considered. Faxed transmissions are not acceptable. The original and **eight copies** of the Proposal (one copy must be unbound and ready to photocopy) are to be sent to the attention of:

Sheila Morgan-Johnson
Chief Investment Officer
D.C. Retirement Board
900 7th Street, N.W., Suite 200
Washington, D.C. 20001

The questions and/or requests made in the RFP should be duplicated in their entirety in the Proposal with each question and/or request repeated before the answer or response.

5.2 Inquiries

Questions concerning the RFP must be received no later than December 1, 2009. Inquiries will be responded to in writing, and copies of the inquiries and responses will be forwarded to all participating firms. Failure to observe the requirements specified herein is grounds for disqualification.

5.3 Public Record

All responses received (including fees) are deemed to be "public records" pursuant to the D.C. Freedom of Information Act (D.C. Code 2-531 et seq).

5.4 Incurring Costs

Each firm is responsible for the costs associated with the submission of its response and all other related expenses, including any travel costs.

5.5 Withdrawal/Irrevocability/Lock-Out

A firm may withdraw a response in writing, once submitted, provided that such withdrawal occurs prior to the proposal submission deadline. The Board reserves the right to waive or permit cure for minor informalities, and to conduct discussions with all qualified firms in any manner necessary to serve the best interest of the Funds.

Upon issuance of the RFP, all recipients of the RFP must refrain from intentional, unauthorized contact with any Trustee or staff of the Board during the search and selection period to avoid the appearance of a conflict in the decision-making process. Authorized contact includes communication for (a) ordinary and necessary business purposes and (b) matters of public record other than unintended, incidental occurrences. The Board reserves the right to award this engagement based upon evaluation of the written responses received and without further discussions or negotiations. The Board reserves the right to terminate the process at any time without any selection or notification.

5.6 Prohibited Acts

Pursuant to subsection 1611.1 of the Board's Procurement Rules, Trustees and staff of the Board may not solicit a contract for which the Trustee or staff of the Board is paid any consideration contingent on the making of a contract.

6.0 Selection Process

All terms and conditions are subject to negotiation, amendment, or rescission by the Board at any time prior to the execution of its contract with the selected consultant if the Board deems it in the best interest of the Funds to do so. The Board reserves the right to request supplemental information from potential firms during the term of this RFP process.

6.1 Investment Committee

The Investment Committee and/or staff will select a list of finalists to be interviewed. The Investment Committee will interview the finalists. Interviews will take place at the Board's office. The Investment Committee will make a final recommendation to the full Board for its approval.

6.2 Selection Criteria

The Board seeks to retain the highest quality organization to provide consulting services in an open, fair, and competitive process. Through the selection process, the Board reserves the sole discretion in awarding the contract.

6.3 Evaluation Criteria

The Investment Committee and staff will determine the most qualified applicants based upon written responses received to Attachment A (Proposed Fee Schedule), Attachment B (Representations and Warranties) and Attachment E (Proposal Questionnaire).

The evaluation of qualifications will include, but not be limited to, such factors as:

Experience of the firm	15%*
Experience and qualifications of the staff assigned	15%
Demonstrable track record	15%
Independence of consulting operations	15%
Team stability	10%
Breadth of expertise	10%
Industry and client reference checks	10%
Fee	10%

*The above percentages serve as guidelines in the evaluation process and are subject to change.

7.0 Tentative Timetable

The following is the tentative time schedule for the Board's search for a firm to provide general consulting services. All dates are subject to modification.

Tuesday, November 17, 2009	Issuance of RFP
Tuesday, December 1, 2009	Deadline for submission of questions and letter of interest
Tuesday, December 15, 2009	Responses to questions released
Tuesday, December 29, 2009	Deadline for submission of proposals
January 2010	Selection of Finalists
January – February 2010	On-site visits
Thursday, February 18, 2010	Oral presentations before Investment Committee and Consultant selection
To Be Determined	Projected commencement date

8.0 Minimum Criteria

A firm must meet all of the following minimum criteria to be given further consideration in the Board's search for a Consultant. Failure of a firm to meet the minimum criteria applicable to the consulting services for which it is submitting a Proposal will result in the Proposal's immediate rejection.

- 8.1 The firm must be a registered investment advisor under the Investment Advisers Act of 1940 or exempt from registration. Please attach as an Appendix to your proposal your firm's current Form ADV Part I and II or provide evidence of your exemption.
- 8.2 The firm must provide general pension consulting services to clients with aggregate assets of at least \$10 billion, including at least three U.S. public pension funds.
- 8.3 The firm, or the team of investment professionals, must have served as consultant for at least one U. S. pension fund client with assets of at least \$1 billion for a period of not less than one year, as of the date of this RFP.
- 8.4 The primary consultant assigned to the Board's account must have a minimum of five (5) years experience in a lead role (either as a primary consultant, chief executive officer, executive director, or chief investment officer of a pension fund with assets of at least \$500 million) preparing or overseeing investment policies, asset allocation plans, evaluating domestic and international managers, and selecting domestic and international managers for public and/or private pension plans.
- 8.5 The firm must assign at least two senior consultants to the Board. While one may be designated primary consultant for the account, the secondary consultant must be fully capable of handling all aspects of the account in the absence of the primary consultant.
- 8.6 The firm must maintain or have access to a database of domestic and international investment managers as well as non-traditional and emerging managers and have at least three (3) years experience in providing performance analysis on portfolios for pension fund clients.
- 8.7 The firm must be able to maintain a data processing interface with the Board's custodian bank by electronic means.

- 8.8 The firm must agree to be a fiduciary to the Board.
- 8.9 The firm is not involved in pending litigation or under a censure or restraining order by a court of proper jurisdiction or in bankruptcy, conservatorship, or receivership.
- 8.10 The firm will provide annual financial statements prepared in accordance with generally accepted accounting standards and audited by an independent certified public accounting firm.
- 8.11 The firm must agree to disclose all conflicts of interest, all sources of revenue and all affiliations.
- 8.12 The firm must carry adequate fiduciary liability insurance, errors & omissions insurance, and fidelity bond insurance policy limits for fiduciary liability insurance must be disclosed and the adequacy of coverage discussed in the proposal.
- 8.13 Any legal and/or regulatory inquiries and/or sanctions against the firm or any individuals employed by the firm must be disclosed.
- 8.14 The firm is required to disclose the identity of all third-party marketers and/or individuals the firm has or intends to use to solicit business from the Board (including any managers, sub-advisors, law firms, consultants, and custodian) and the firm must indicate those so identified that stand to receive fees or other consideration in the event a contract between the firm and the Board is secured.

9.0 Fee Proposal

As the term of the engagement shall be a three-year period, the Fee Proposal shall be guaranteed for a period of not less than three (3) years from the effective date of the contract. All firms must complete Attachment A and return it with their responses to the RFP before the due date.

The Board reserves the right to further negotiate fees but in no case will the negotiated fee be higher than the fee contained in the Proposal.

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**GENERAL INVESTMENT CONSULTING SERVICES
PROPOSED FEE SCHEDULE**

Firms must submit their fees for pension consulting services in the format prescribed below. The proposed fees shall include all costs and expenses for providing services to the Board as described in this RFP. Please make note of any required services that you are unable to or unwilling to provide within your proposed bundled fee.

Firms must complete both Sections A and B of this fee schedule. The Board reserves the right to compensate the successful firm for services using either the bundled fee as contained in Section A below, or the unbundled fees contained in Section B below. The fee should include all travel and other out of pocket expenses. The method of payment will be determined by the Agreement, and only one payment method will be employed.

SECTION A - BUNDLED FEES: Firms must submit an annual fee for all services as described in Article III (Scope of Work) of this RFP.

Year 1	\$ _____
Year 2	\$ _____
Year 3	\$ _____
Total	\$ _____

SECTION B - UNBUNDLED FEES: Please refer to Article III (Scope of Work) of this RFP for a complete description of services required of the successful contractor.

General Consulting	\$ _____ (annually)
Asset/Liability Study (usually every 3 years)	\$ _____ (per occurrence)
Manager (and Custodian Bank) Search and Selection	\$ _____ (per occurrence)
Performance Measurement and Reporting	\$ _____ (quarterly)
Investment Training Workshop	\$ _____ (per occurrence)

Print Firm Name

Date

Print Authorized Signatory Name

Authorized Signatory

REPRESENTATIONS AND WARRANTIES

All firms are required to submit an executed Representations and Warranties statement as an attachment to the cover letter of the RFP before the due date.

A. The firm warrants that it meets, or will meet before the award of the Agreement, the bonding requirement provided by D.C. Retirement Reform Act (Pub. L. 96-122) D.C. Code Section 1-745, or that it carries at least an equivalent fidelity bond that will be applicable to the firm's actions under that Agreement (unless exempt, explanation of exemption is attached). Section 1-745 is included as Attachment D.

B. The firm warrants that it maintains an errors and omissions insurance policy providing a prudent amount of coverage for negligent acts or omissions and that such coverage will be applicable to the firm's actions, responsibilities and obligations under the Agreement.

C. The firm warrants that it shall discharge its duties with respect to the Funds in accordance with the requirements of the Reform Act, with care, skill, prudence and diligence, and in compliance with any other applicable laws. Further, with respect to the foregoing, the Board will rely on the expertise and experience of the firm in all matters related to the Funds as to which services are to be provided by the firm.

D. The firm warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations required by any government, governmental authority, or other regulatory authority with respect to all actions, responsibilities, and obligations contemplated by the Agreement.

E. The firm warrants that it meets all of the minimum criteria applicable to the firm under this RFP.

F. The firm warrants that the person submitting this Proposal and executing these Representations and Warranties is duly authorized by the firm to submit this Proposal and execute these Representations and Warranties.

Name of Firm

Date

Signature

Print Name and Title