

## **REQUEST FOR PROPOSAL:**

### **INVESTMENT PERFORMANCE EVALUATION OF OHIO'S PUBLIC RETIREMENT SYSTEMS**

**June 12, 2014**

#### **I. *Summary***

##### **1.1 PURPOSE**

Pursuant to Ohio Revised Code (R.C.) 171.04(D), the Ohio Retirement Study Council (ORSC) requests proposals from qualified investment consulting firms interested in providing, twice annually, an investment performance evaluation of Ohio's public retirement systems and their \$187 billion dollars of assets. The services being sought are specified in more detail in Section II of this RFP (*Scope of investment performance evaluation*).

##### **1.2 CLOSING DATE FOR RECEIPT OF PROPOSALS**

Four copies of the proposal, including one unbound copy, must be submitted to Bethany Rhodes, Director, Ohio Retirement Study Council, 88 East Broad Street, Suite 1175, Columbus, Ohio 43215 no later than 5:00 p.m., EST, on July 23, 2014. Proposals received after the deadline will not be considered by the ORSC and will be returned to the proposer.

##### **1.3 ADDITIONAL RFP INFORMATION**

If your firm is interested in responding to this RFP and needs additional information to complete it, please write to Bethany Rhodes, Director/General Counsel, Ohio Retirement Study Council, 88 East Broad Street, Suite 1175, Columbus, Ohio 43215; facsimile (614) 228-0118; e-mail [Bethany.Rhodes@orsc.org](mailto:Bethany.Rhodes@orsc.org). All questions and written answers will be shared with all other known interested parties.

##### **1.4 BACKGROUND**

The ORSC was created by the Ohio General Assembly in 1968 and is one of the oldest permanent pension oversight commissions in the nation. It is composed of three members each of the Ohio House and Ohio Senate, three members appointed by the Governor, and, as non-voting members, the directors of each of the five state retirement systems. Its purpose is to advise and inform the state legislature on all

matters relating to the benefits, funding, investment, and operation of Ohio's five state retirement systems: the Public Employees Retirement System (PERS), the Ohio Police and Fire Pension Fund (OP&F), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the Highway Patrol Retirement System (HPRS). As of January 1, 2014, Ohio's five state retirement systems have assets totaling approximately \$187.87 billion. The systems provide retirement, disability, and survivor coverage to approximately 1.8 million members, retirees, and their beneficiaries. The statutes governing the ORSC are found in Chapter 171 of the Ohio Revised Code.

The ORSC is charged with the following statutory duties:

(1) Makes an impartial review from time to time of all laws governing the administration and financing of the retirement systems and makes recommendations to the legislature on any changes it finds desirable with respect to benefits, sound financing of benefit costs, and prudent investment of funds (R.C. 171.04(A));

(2) Reports annually to the governor and legislature on its evaluation and recommendations with respect to the operations of the retirement systems and their funds (R.C. 171.04(B));

(3) Studies all proposed changes to the retirement laws and reports to the legislature on their probable costs, actuarial implications, and desirability as a matter of public policy (R.C. 171.04(C));

(4) Reviews semiannually the investment programs of the retirement systems (R.C. 171.04(D));

(5) Has prepared, at least once every ten years, an independent actuarial audit of the annual actuarial valuations and quinquennial actuarial experience studies of each retirement system (R.C. 171.04(E));

(6) Has conducted a fiduciary performance audit of each system at least once every ten years (R.C. 171.04(F));

(7) Provides each Council member with copies of all proposed rules submitted by the retirement systems and submit any recommendations to the Joint Committee on Agency Rule Review (R.C. 171.04(G));

(8) Reviews the adequacy of the police and fire contribution rates and makes recommendations to the legislature that it finds necessary for the proper financing of OP&F benefits (R.C. 742.311); and

(9) Prepares an independent actuarial study every three years on the required employer supplemental contributions to be made on behalf of eligible employees of public institutions of higher education electing an alternative retirement plan in lieu of the retirement systems (R.C. 171.07).

Additionally, all five retirement systems have discretionary authority to offer comprehensive hospital, medical, and prescription drug coverage to retirees and their dependents. Participants in the retirement systems are not covered under Social Security with respect to their public employment.

The Ohio General Assembly has ultimate responsibility for the stability of the systems. It has a fiduciary responsibility not only to the plan participants but also to the taxpayers who support these systems to review periodically its policies to ensure that the level of benefits is equitable, the level of funding is adequate, and the investment of funds is prudent. The Ohio General Assembly has relied on the ORSC for nearly 50 years to provide the necessary advice and information that enables it to make informed decisions based on sound public policy. Therefore, it is imperative that the ORSC has the necessary tools and information to perform these functions.

The ORSC is seeking a qualified firm to assist in its duties specified in number (4) above. The purpose of the study is to provide a framework in which ORSC members are provided an “apples to apples” comparison of the system’s investment performance relative to each other and other similarly situated funds with similar objectives. The Council has received such investment evaluations since 1998.

For additional information about the ORSC, please refer to our web site ([www.orsc.org](http://www.orsc.org)).

## II. *Scope of investment performance evaluation*

The services sought are a comparative evaluation of the investment performance of the funds of Ohio’s five state retirement systems-PERS, OP&F, STRS, SERS, and SHPRS-for the 6-month periods January 1 to June 30 and July 1 to December 31 of each contract year. Note that PERS has two funds, a pension fund and health care fund. Because the investment objectives of these two funds are widely divergent, for purposes of the evaluation these funds will be compared separately, meaning that an evaluation of the performance of six funds is requested.<sup>1</sup> The specific services requested are:

1. An overview analysis of the broad market environment of the preceding 6-month period and its general effect on investment performance;
2. A review of the median performance of similarly situated public funds during the preceding 6-month, one-year, three-year, five-year, and ten-year periods compared to each fund’s performance in the same period;

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<sup>1</sup> For purposes of the study, the PERS funds will be distinguished as “PERS” and “PERS-HC” funds.

3. A review of the asset allocation of the system's funds compared to other similarly situated funds;
4. A comparison of the total performance of each of the system's funds against each funds' own policy benchmark; additionally, compare that total performance against their peer groups;
5. A comparison of each broad asset class in each of system's funds against the funds' own policy benchmark; additionally, compare that performance against their peer groups;
6. A review of the risk-return performance of each system's total fund and of each asset class;
7. A comparison of each fund's actual asset allocation to the allocations approved by the respective Board to determine adherence to those Board guidelines;
8. A comparison of each fund's total fund performance with its assumed rate of return for the 6-month, 1-year, 3-year, 5-year, and 10-year period;
9. A brief commentary on areas needing further review or that are of note (either positive or negative) that would assist the Council in its duties;
10. A review of each fund's total return net of fees. Additionally, note the percentage of assets managed by external managers for each fund and the total fees associated with its management.

Except as detailed in 10 above, all performance is to be calculated on a gross return basis.

The contractor will be required to provide the following three summary statements as an executive summary:

- An overall opinion as to the validity, completeness, and appropriateness of the investment performance data provided by the retirement systems.
- Comments on the appropriateness of performance benchmarks used by the systems.
- Comments on each fund's performance versus the broad universe of other similarly situated public retirement systems.

### **III. *Work product***

#### **3.1 WRITTEN EVALUATION**

If selected, the Contractor shall submit 35 bound copies of the final performance evaluation to the ORSC. The Contractor shall also submit the final performance evaluation as a PDF document. The ORSC will reserve the right to use and reproduce the evaluation and data produced and delivered pursuant to the contract and will reserve the right to authorize others to use or reproduce those materials.

The final performance evaluation shall include all information specified under Section II, above.

Powerpoint is **not** an acceptable format for the performance evaluation. The evaluation must be in language clearly understood by lay readers to the extent possible. Terms essential to an understanding of investment performance should be explained in lay terms. To the extent that it does not disclose any proprietary information, any assumptions or methodology used should be clearly disclosed in the report.

### **3.2 PRESENTATION TO ORSC**

If selected, the Contractor will be required to present the evaluation to the ORSC, twice annually.

The Contractor should anticipate being asked basic and advanced investment performance questions and be able to answer those questions using non-technical language or jargon accessible to a non-specialist and the general public.

### **3.3 WORKING PAPERS**

If selected, the Contractor's working papers shall be available for review and duplication by ORSC and its designees during the period of the contract and for a period of not less than four years after the last payment date. The Contractor also shall be available to answer reasonable questions by authorized representatives of ORSC at no additional cost beyond the contract price.

### **3.4 PROJECT EXECUTION AND ADMINISTRATION**

If selected, the Contractor will be responsible for coordinating and obtaining needed information from the state retirement systems (video, telephone conferences or email should suffice). The Contractor will be responsible for all of the Contractor's travel arrangements, travel expenses, clerical support.

## **IV. *Organization and content of vendor proposal***

Please complete all of the following in making a submission under this RFP. The evaluation standards, including the scoring metrics, can be found under Section V.

### **4.1 PROPOSAL SUMMARY**

Provide a narrative summary of all the services and work products that are being offered. The purpose of the summary is to demonstrate your firm's understanding of this RFP.

#### **4.2 CAPABILITIES AND EXPERIENCE**

Describe your firm's capabilities and recent experience in performing investment performance evaluations, analyses, or studies of public employee retirement systems. Include information on the types and sizes of public employee retirement systems for which past work has been performed, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to Ohio's systems. You should include other information you believe may be relevant in demonstrating your capabilities in performing the review, including other professional experience and data processing capabilities. Include a sample of any research reports issued to clients related to performance evaluations or market analyses.

The firm must meet the following *minimum criteria*:

- Have provided an investment performance evaluation comparable to that requested under this RFP in the past three years.
- As of March 31, 2014, and for at least the five most recent continuous years, the firm must have a verifiable operating history with at least three institutional fund clients with similar size, complexity and asset mix to Ohio's systems.
- As of March 31, 2014, the primary contact dedicated to the ORSC contract must have at least ten years' experience in providing investing consulting services to institutional fund clients.
- The firm must be registered as an investment adviser under the Investment Advisers Act of 1940. The firm will promptly advise the ORSC if it, at any time, is not so registered.

The ORSC retains the sole right to decide whether any firm is qualified to bid, including determining whether any firm's qualifications are sufficiently comparable to satisfy the minimum qualifications.

#### **4.3 REFERENCES**

Include a list of organizations that may be used as references for your work on investment performance evaluations or studies. Selected organizations may be contacted to determine the quality of the work performed, personnel assigned to the

project, and contract adherence. The following should be included for the references listed:

- Date of the review or study;
- Name and address of client;
- Name and telephone number of individual in the client organization who is familiar with the evaluation or study; and
- Description of the work performed.

#### **4.4 STAFF QUALIFICATIONS**

Describe the qualifications of all management and lead professional personnel who will participate in the investment performance evaluation. Include: (1) a resume; (2) a summary of experience each has had in performing investment evaluations, investment analyses, or studies of public employee retirement systems; and (3) a management plan identifying the responsibilities each will have on the evaluation.

The resume should include information on the current and past positions held with your firm, educational background, relevant credentials, and other relevant information to demonstrate the personnel's qualifications.

The experience summaries should include information on the types and sizes of public employee retirement systems for which the designated staff have completed investment performance evaluations, including whether the systems were defined benefit or defined contribution plans, the types and number of participating employers, number of participants, and other relevant indicators of plan type, size, and comparability to Ohio's systems. You may reference, rather than repeat, duplicative information provided elsewhere in your proposal. The experience summaries should describe the work performed and detail the roles and responsibilities that the individual staff had on the projects.

The management plan should provide an estimated portion of each individual staff member's time that will be spent on the evaluation.

#### **4.5 PROPOSED METHODOLOGY AND WORK PRODUCT**

Describe the proposed methodology for each element of the components listed under *Scope of investment performance evaluation*. The description should include specific techniques that will be used, including proposed sources of data and information. You may propose alternative ways of addressing the elements of the evaluation's scope.

In describing your proposed methodology, also identify the type and level of assistance that you anticipate will be needed from the staff of Ohio's five retirement

systems and staff of the ORSC, including assistance to understand the operations and records needed for the review. Identify meetings, calls, time commitments, etc., that you anticipate needing from each retirement system.

Describe the final work product, including written evaluation, briefings, and availability of working papers. Include one or more examples of work products for investment performance evaluations that may help to illustrate the proposed methodology and final work product.

#### **4.6 ADDITIONAL INFORMATION**

You may include additional information that will be helpful to gain an understanding of the proposal. This may include diagrams, excerpts from reports, or other explanatory documentation that would clarify or substantiate your proposal. Any material included here should be specifically referenced elsewhere in the proposal.

#### **4.7 GLOSSARY**

Provide a glossary of all abbreviations, acronyms, and technical terms used to describe the services or products proposed. This glossary should be provided even if the terms are described or defined when first used in the proposal response.

#### **4.8 COST INFORMATION**

The cost estimates in the pricing summary must include all necessary charges to conduct the review and must be a "not to exceed" figure. The pricing summary should include per element: personnel costs (including hourly rates and estimated hours for professional and clerical staff assigned to the evaluation), travel and lodging, data processing costs, materials, and any other potential costs.

### **V. *Evaluation of proposal***

Proposals will be evaluated across the categories listed in Section IV of this RFP using a scoring system that will total 100 points. Incomplete or insufficient answers to proposal requirements may cause a reduction in points awarded. An ORSC Subcommittee and ORSC staff will preliminarily evaluate and score the responses, and provide a recommendation to the ORSC. The ORSC will award the project through its evaluation of the responses, in conjunction with the Subcommittee's recommendation and subsequent interviews by the Council as a whole.



The following metrics will be used for scoring of the proposal, organized by relative importance of each category:

Proposal Summary	20 points
Capabilities and Experience	20 points
Staff Qualifications	25 points
References	10 points
Methodology and Work Product	15 points
Cost <sup>2</sup>	10 points
<b>Total Possible Score</b>	<b>100 points</b>

**VI. *Duration of Contract***

The contract shall be for four years.

**VII. *Supplemental required information***

When submitting your proposal, briefly respond to all of the following questions. Please note that the following will not be used to score your proposal but will be used for informational purposes by ORSC staff in providing recommendations and understanding your firm's philosophy towards investment evaluation.

1. Has your firm, or any of its principals, officers, or any affiliate ever been a party to any litigation or allegations concerning fraud, negligence, criminal activity, violations of law or regulations, or fiduciary responsibility or other investment related matters?

2. Has your firm, or any of its principals, officers, or any affiliate ever been the focus of a non-routine Securities and Exchange Commission (SEC) inquiry or

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<sup>2</sup> A firm shall receive points based on cost by dividing the lowest bid by that firm's bid, and multiplying the quotient by the maximum number of points available. Points will be deducted if the cost does not follow the requirements imposed by section 4.8 of the RFP.

investigation or a similar inquiry or investigation from federal, state, or self-regulatory body or organization?

3. Will the firm contractually agree to disclose all conflicts of interest that exist or occur and disclose all sources of revenue, affiliations, and details of other relationships that may present conflicts of interest? Does the firm have any active contractual agreements with any of the five state retirement systems? If so, what methods would be used to ensure that no conflict of interest is present in your work with respect to your contract with the retirement system or the ORSC?

4. Does the firm intend to utilize any subcontractors in delivering any elements of investment performance evaluation services? If yes, explain.

5. Provide the following information about the firm:

a) A brief description of the structure of the firm, including the legal form of organization, the parent company, and any affiliated companies, strategic partnerships, and joint ventures.

b) Within the past three years, have there been any significant developments in your organization such as changes in ownership, restructuring, or personnel reorganizations? Do you anticipate any significant structural changes in your organization in the next 12 months?

6. Discuss rates of staff turnover for the past three calendar years, including the professional staff that left the firm in each period and reasons for departure.

7. Describe your firm's philosophy as it pertains to investment consulting and investment performance evaluations. What role does the firm see itself playing for a client such as the ORSC? What do you see as the value your firm can provide to the ORSC?

8. Describe your firm's philosophy and methodology in determining appropriate benchmarks and how performance is best evaluated. What is important in determining if a system is outperforming its peers? What are the most important standards of comparisons between funds?

9. How do you define investment risk, and how does that apply to public pension funds?