

Proposal to the
Ohio Retirement System Study Council
to Perform a
Fiduciary Performance Audit
of the School Employees Retirement System
of Ohio

December 28, 2015



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facilitate duplex printing.

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I. PROPOSAL SUMMARY

Executive Summary

Each proposal shall provide a narrative summary of the proposal being submitted. This summary should identify all of the services and work products that are being offered in the proposal and should demonstrate your firm's understanding of the project.

We understand the purpose of this Fiduciary Performance Audit is to identify areas of strengths and weaknesses in the School Employees Retirement System of Ohio (SERS), compare SERS operation with best practices of other public pension plans, and make recommendations for improvement. At the request of SERS, Funston Advisory Services (FAS) conducted a similar review in 2013 which was limited in scope to the investment operations. FAS is very interested in conducting this review of behalf of the Ohio Retirement Study Council (ORSC) and believe we would be the best candidate for the role for five primary reasons:

1. ***FAS is the most knowledgeable and experienced consulting firm capable of conducting this type of governance review.*** Since the 2013 SERS of Ohio review, we have completed fiduciary and operational reviews of the South Carolina Retirement System Investment Commission, the South Carolina Public Employee Benefits Authority, and the New York City Bureau of Asset Management. Each one of these reviews was comprehensive and very well received. The rate of implementation of our recommendations has been very high. Through these reviews, several of which included benchmarking with numerous other state public pension funds, we have developed a broad knowledgebase of leading, prevailing and lagging governance and operational practices which can be leveraged for this review of SERS. We are currently working with four state retirement systems and have an up-to-date understanding of current issues and leading practices.
2. ***We are independent and provide an unbiased perspective and recommendations.*** Consulting on governance, strategy, risk and operations to retirement systems is our only business. We do not have any other lines of business which could potentially cause conflicts or even the appearance of conflicts. We can and do provide candid and independent advice. Our reports have the credibility the ORSC and SERS are seeking to reassure stakeholders.
3. ***The experience and expertise of our consultants is unmatched and our advice is practical.*** Our team members have deep and diverse experience in leading retirement organizations, providing fiduciary and investment counsel, managing the finance, accounting, operations and other support functions of a system, building risk management capabilities, and in providing strategic and operational advice to clients like SERS. We understand the environment and constraints in which SERS operates and, consequently, we will work together to develop integrated solutions and provide recommendations which are practical and, therefore, implementable.
4. ***We deliver on our commitments.*** We have never missed a deadline nor have we failed to deliver what we promised with any client. In addition to having the capability and expertise, we take our commitment to professional standards very seriously and do what it takes to meet our client commitments with the highest degree of integrity.

5. *We have a significant head start and accelerated learning curve.* We are proposing a team which includes a number of the same members that completed our 2013 review of SERS – our team understands the environment the system operates in and its challenges. Rick Funston will provide overall leadership and Randy Miller will again be the project manager. Keith Johnson and Reinhart Law will again provide fiduciary and other legal expertise. Jon Lukomnik, along with Rick and Randy, will again lead the review of investment due diligence and other investment operations. Ken Johnson, along with Randy, will again lead the review of organizational structure and staffing, budgeting and expenses, custody relationships and compensation policies. The entire team will be involved in reviewing the Fund’s progress in implementing our recommendations from the 2013 review and in identifying new opportunities for improvement and formulating recommendations.

We believe a four- to five-month duration for this review is reasonable and achievable and have developed our approach and workplan to complete the review in that time period. We would not see any significant benefit from a longer duration for this review.

We propose conducting this review in three phases as follows:

Phase 1: Data Gathering: Collect and review documents, including a benchmarking profile survey; conduct the Opening Conference; and conduct internal and external interviews. This phase would require four to five weeks to complete;

Phase 2: Assessment/Analysis: Complete each of the six main work tasks. The tasks comprising this phase would require eight to ten weeks to complete; and

Phase 3: Final Report: Submit the final draft report; obtain SERS executive and staff feedback; incorporate feedback; submit final report; and conduct Closing Conference. This phase would require four to five weeks to complete.

Rick Funston will have overall responsibility for the project and its results. On a day-to-day basis, Randy Miller will be the primary contact person and project manager. We would also expect to have regular weekly status update conference calls with the SERS project liaison to ensure effective ongoing communication throughout the project. We will provide at least monthly written status reports to the ORSC as well as weekly conference calls to review progress. As described later in the proposal, we also use a cloud-based collaboration tool which would enable ORSC to monitor progress in real time.

Prior to conducting the Opening Conference, the FAS team will prepare a document request, including a benchmarking profile survey, and allow several weeks for the SERS staff to respond. We will also work with the SERS contact person to schedule interviews.

We anticipate submitting the first draft final report within twelve to fifteen weeks. The four- to five-week Phase 3 will allow adequate time for SERS to review the document and provide responses to FAS. After incorporating the feedback, we will submit the final report and present a summary of the report in the Closing Conference. All time estimates are dependent upon timely co-operation from SERS. Given our 2013 experience working with SERS, we do not anticipate any difficulties.

The final report will include: a description of the work performed; an executive summary; a description of leading practices used for comparison; findings and recommendations as to whether SERS' practices are leading, prevailing or lagging, recommended priorities based on such factors as degree of difficulty, cost, and involvement of other parties; and specific and concrete proposals to achieve any improvements recommended in the report. The recommendations and proposals will be prioritized and provide the potential costs or benefits associated with implementation. The key findings, recommendations, and proposals will be organized in a manner that clearly identifies to whom they are primarily directed (e.g., the Legislature, SERS Board, SERS staff functions, and the ORSC).

We sincerely look forward to the opportunity to work with the ORSC and SERS on this important assignment. You have our commitment that this will receive our highest attention and we will deliver a high quality and timely report.

General Information

In addition to the summary, please provide all of the following general information:

- *Your firm's primary contact for ORSC staff use and, if different, for SERS staff use during the audit;*
- *General ownership structure of your organization, including subsidiary and affiliated companies, and joint venture relationships;*
- *Information regarding any material change in your firm's structure or ownership within the last eighteen months, or any material change in ownership, staff, or structure currently under review or being contemplated by your firm;*
- *If available, a third-party assessment or report concerning client satisfaction and measures of your firm's strengths and weaknesses;*
- *Any material litigation to which your firm is currently a party;*
- *A list and brief description of litigation brought against your firm by existing or former clients over the last five years; and*
- *A list of any professional relationships involving the ORSC, the five Ohio public retirement systems, the State of Ohio, or its political subdivisions for the past five years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed review.*

Randy Miller, a Principal with FAS, will be the primary contact person for both the ORSC and SERS. He can be contacted via email at rmiller@funstonadv.com or via telephone at (248) 250-1111.

FAS is and has been 100% owned by Rick Funston since its founding in 2010. No changes are currently being contemplated. FAS has no subsidiaries, nor does it have any equity positions in joint ventures; however, FAS does often work with other firms either as a prime contractor or as a subcontractor in order to include the appropriate experience and capabilities for a specific engagement.

FAS has not been evaluated by a third-party firm for client satisfaction; however, we would be pleased to have the ORSC contact our reference clients to discuss our work.

FAS is not now, nor has it ever been, party to any material litigation.

FAS was selected by SERS of Ohio in late 2012 through a competitive bidding process to conduct a fiduciary audit of its investment operations. The audit was completed during the time period of January through April 2013. In the course of this review, FAS team members interviewed the Director and General Counsel of the ORSC as a key stakeholder in SERS. Subsequently, FAS team members have had informal conversations with SERS and ORSC executives to follow up on our fiduciary audit recommendations and understand implementation progress.

Earlier in 2015, in response to an RFP, FAS submitted a proposal to SERS of Ohio to conduct an audit of its private equity fees; we were not selected for that assignment.

In March 2015, FAS was contracted by Ohio Police & Fire to conduct a Board workshop on leading practices in retirement system governance and the linkages between governance and strategy.

Over the past five years, during various benchmarking studies conducted by FAS on behalf of its state retirement system clients, the Ohio Public Employees Retirement System (OPERS) and State Teachers Retirement System (STRS) of Ohio have each participated in two governance studies. Ohio Police & Fire participated in a benchmarking study we conducted on behalf of SERS of Ohio during our fiduciary audit in 2013.

FAS does not perceive any conflicts for this SERS fiduciary performance audit assignment resulting from any of these relationships. To the contrary, we believe that these interactions have informed the proposed FAS project team about the state retirement system environment in Ohio and, through the SERS fiduciary audit specifically, SERS governance and operations structure and policies, which should provide a significant advantage to being able to successfully perform this engagement on behalf of the ORSC.

II. CAPABILITIES AND EXPERIENCE

Overview of Funston Advisory Services LLC (FAS)

Funston Advisory Services is recognized as one of the nation's preeminent advisors to public retirement systems in the areas of governance, operations (including investment operations) and risk intelligence. We are distinguished by the caliber and experience of our team and the quality and pragmatism of our advice. Our approach is based on leading practices and tempered with decades of practical experience based upon what actually works in specific circumstances.

Increasingly, we are the team that public retirement systems are turning to for help in governance, fiduciary and operational matters. We bring a track record of success and an outstanding team dedicated to this project and its success and are familiar with the School Employees Retirement System of Ohio based upon our Fiduciary Audit which we performed three years ago.

Over the past five years, FAS has assisted a growing number of major state public retirement systems and sovereign wealth funds in evaluating their fiduciary performance and identifying governance, regulatory, policy, and operational process improvement opportunities. Our reviews typically result in a high level of acceptance of the results and extensive implementation of the recommendations.

These funds include the California Public Employees Retirement System, the Oregon Investment Council, the New York State Common Retirement Fund, the School Employees Retirement System of Ohio, both the South Carolina Retirement System Investment Commission and Public Employee Benefit Authority, the Trust Fund for the People of the Federated States of Micronesia and, most recently, the New York City Comptroller's Bureau of Asset Management. We currently have governance engagements underway with the Oregon Treasurer's Office, the Utah Retirement Systems, the Pennsylvania State Employees' Retirement System (SERS), the Los Angeles County Employees Retirement Association (LACERA), and the Indiana Public Employee Retirement System (working with Cutter Associates).

We have also provided board and executive education to organizations such as CalPERS, Fairfax County Retirement System, California Association of Public Retirement Systems, Indiana Public Retirement System, Maryland State Retirement and Pension System, Ohio Police & Fire Pension Fund, Oregon College Savings Plan, State of Wisconsin Investment Board, State University Retirement Systems of Illinois, State of Wisconsin Investment Board, the Washington State Investment Board, and the National Council on Teacher Retirement. In addition, we have published numerous articles on the topics of governance, fiduciary responsibility and risk intelligence. Our team members are frequent presenters at national and international industry conferences.

Our extensive knowledgebase garnered from participation by over 50 public retirement systems contains data on a range of policies and practices. The FAS knowledgebase is described in more detail in *Appendix A*. We can readily assess how SERS of Ohio compares to its peers regarding leading, prevailing and lagging practices in numerous areas.

Each proposal shall describe your firm's capabilities and recent experience (at least during the last five years) in performing fiduciary audits or studies of public employee retirement systems. The firm should 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 SERS. You may provide a sampling or summary description of the scope of these projects and non-proprietary key findings and recommendations.

Recent Governance and Fiduciary Reviews

The following are overviews of seven fiduciary reviews FAS has performed for public retirement systems over the past five years. Reference contact information for each is provided in *Section IV*.

New York City Office of the Comptroller Bureau of Asset Management (BAM) – Management and Operations Study and Best Practice Review

Background of the retirement system: The New York City Comptroller serves as a member of the Board of Trustees of four of the five City Public Pension Funds and is investment advisor to, and custodian of, the five Funds. As the investment advisor to the Funds, the Comptroller has the fiduciary responsibility of investing and protecting the Funds for more than 700,000 retirees and beneficiaries. The Bureau of Asset Management in the Comptroller's Office is responsible for managing over \$160 billion in defined benefit plan assets on behalf of five New York City retirement systems.

Primary areas of focus: Best practices review of all internal BAM departments, all key external service providers, sister bureau service providers, and relationships with five retirement boards. Topics included policies, practices and procedures, staffing, investment operations, information systems, contracting, compliance, risk, financial reporting, and corporate governance.

Size and complexity: This engagement was completed with a core team of ten people over a period of four months.

Results: To be determined; report was submitted in early December 2015 and has not yet been made public.

Overview: In June 2015, Funston Advisory Services was engaged by the New York City Comptroller's Office to conduct a comprehensive review of its Bureau of Asset Management (BAM). The RFP organized the work into twenty areas and included over 180 specific topics for review. The Comptroller's Office structured the work activity into three parts, starting with an evaluation of policies, procedures, and practices in all internal BAM divisions, as well as BAM's interactions with the Bureau of Accountancy. The internal evaluation was followed by a detailed performance analysis of BAM's investment processes and operations, including the performance of an array of external service providers, BAM's interactions with the five retirement systems, and an assessment of BAM's use of information technology. The third step was a detailed gap analysis which compared BAM to best practices in each of these areas. Over a period of four months, FAS produced a report which described

our overall evaluation of BAM and its operations, including conclusions, opportunities for improvement based upon leading practices, and recommended actions and priorities. The final report included over 200 detailed recommendations.

We began this review with a detailed document request, a profile questionnaire which requested information for each of the twenty areas in scope, and two self-assessments which were conducted using a web-based survey. The first survey was administered to BAM employees and provided detailed input regarding each of the twenty areas; we received responses from over 70 percent of BAM staff. The second survey was administered to the trustees and executive directors of the five systems and provided feedback regarding support they receive from BAM.

FAS conducted two face-to-face meetings with BAM staff to review interim and draft final results. We also received extensive feedback on a draft final report and incorporated appropriate refinements into the final report.

The team which conducted this review included Rick Funston, Randy Miller, Keith Bozarth, Virginia Brizendine, Peter Clapman, Marv Damsma, Lance Ihinger, Ken Johnson, Jon Lukomnik, Todd McGowan, Dave Mills, Rich Ronan and Chis Waddell.

South Carolina Public Employee Benefit Authority (PEBA) – Fiduciary Performance Audit

Background of the retirement system: The South Carolina Public Employee Benefit Authority (PEBA) is a state agency responsible for the administration and management of the state's employee insurance programs and retirement systems on behalf of 550,000 active, retired and inactive participants and beneficiaries. The total net position of the combined insurance trust fund assets is over \$1.0 billion. PEBA is also responsible for oversight of 457 and 401(k) defined contribution retirement plans with assets over \$3.5 billion.

Primary areas of focus: Fiduciary performance audit of the retirement and health insurance operations, including Governance, Policy Review and Development, Organization Structure, Communications with Stakeholders, Benefits Administration, Actuarial Matters, Legal Compliance, Customer Service, Record Keeping and Security of Information, Cost of Operations, and Information Technology Systems.

Size and complexity: This engagement was completed with a core team of seven people over a period of five months.

Results: The PEBA Board has been monitoring progress of our recommendations and the PEBA Executive Director provides quarterly updates to the South Carolina Senate Finance Special Subcommittee to Review the Investment of State Retirement Funds.

Overview: In October 2014, the South Carolina Office of the State Inspector General (SIG) engaged Funston Advisory Services LLC (FAS) to conduct a fiduciary performance audit of the Public Employee Benefit Authority (PEBA). The purpose of this audit was to:

- Critically evaluate the fiduciary roles and responsibilities of PEBA and staff; the relationship with each other and other fiduciaries of the Retirement System; and the operational policies and practices of each.
- Identify areas of strength and weakness, along with improvement recommendations and conformance with best practices of other public pension and employee benefit plans.
- Articulate and prioritize recommendations according to their significance and urgency, and, where feasible, include an analysis of potential costs or benefits associated with implementation.

In addition to multiple interviews and extensive document reviews, FAS also designed, conducted and analyzed a custom survey with six peer retirement administration agencies. We relied upon the 2013 CEM Pension Administration Benchmarking Report conducted by the independent firm, CEM Benchmarking Inc. (CEM), as part of this fiduciary performance audit for retirement administration cost and customer service analysis. The full final report is available online at:

http://oig.sc.gov/Documents/FAS_Final_PEBA_Fiduciary_Audit_Report_January_2015.pdf

The FAS team provided testimony to the South Carolina Senate Finance Subcommittee to Review the Investment of Retirement Funds and discussed eleven recommended changes in the statutes to improve retirement fund governance. The Subcommittee voted to include all of the FAS recommendations in its draft bill for 2015.

The team which conducted this review included Rick Funston, Randy Miller, Virginia Brizendine, Rose Hewig, Keith Johnson, Todd McGowan, and Dave Stella.

South Carolina Retirement System Investment Commission – Fiduciary Performance Audit

Background of the retirement system: The South Carolina Retirement System Investment Commission (RSIC) is exclusively empowered to invest and manage all assets of the South Carolina Retirement Systems. Assets under management at the end of fiscal 2015 were over \$29 billion.

Primary areas of focus: Fiduciary performance audit of the investment commission operations, including Governance; Policy Review and Development; Organizational Structure; Investment Administration; Legal Compliance; and Information Technology.

Size and complexity: This engagement was completed with a core team of nine people over a period of five months.

Results: In total, 124 recommendations were identified, of which 108 could be addressed directly by the Investment Commission; of these 124, 38 required the direct involvement of the Commissioners. We also identified 12 recommendations which require action by the Legislature and 4 which require action by the State Treasurer’s Office. The FAS team presented our recommendations to a Senate Finance Subcommittee which was chartered to review the investment of state retirement funds. On November 13, 2014, several members of the FAS team again met with the Senate Finance Subcommittee to present our recommendations for legislative revisions in the RSIC governance structure. The

Subcommittee agreed to incorporate all of our recommendations into the initial draft legislation for 2015.

RSIC has prepared and published three Issue Briefs since the conclusion of this review to advise stakeholders on the progress of their implementation of our recommendations. The most recent Issue Brief is available at <http://ic.sc.gov/PDFs/IssueBriefAugust2015.pdf>.

Overview: In December 2013, the South Carolina Office of the State Inspector General (SIG) engaged Funston Advisory Services LLC (FAS) to conduct a fiduciary performance audit of the Retirement System Investment Commission. The purpose of this audit was to critically evaluate the fiduciary roles and responsibilities of the RSIC Commissioners and staff, the relationship with other fiduciaries of the Retirement System, and the operational policies and practices of the RSIC. The goal of the review was to identify areas of strengths and weaknesses, provide comparison with leading practices of other public pension plans, and make improvement recommendations.

Because the RSIC is a relatively new state agency, the review was designed to be broad in nature, spanning all key functions. The review of these functions was organized into six categories, including Governance; Policy Review and Development; Organizational Structure; Investment Administration; Legal Compliance; and Information Technology.

The fiduciary performance audit began in early December 2013. We reviewed nearly 800 documents and interviewed over 50 people. We also contracted with CEM Benchmarking Inc. to perform an independent investment cost effectiveness study.

In developing our report, we addressed six fundamental questions:

- Who are the RSIC fiduciaries?
- What are their duties?
- What are their authorities?
- Do their authorities match their duties? Are these duties in conflict with other roles played by the various fiduciaries?
- How is the RSIC performing?
- Where and how can the RSIC improve?

Although our review and recommendations were structured around the six areas defined in the RFP, we also organized our recommendations into five key themes which cut across all areas of scope:

1. Improve assurance and independent reassurance to build trust and confidence.
2. Build capabilities across the organization (including HR, IT, Accounting, etc.).
3. Reset Commissioners' focus on strategy and oversight.
4. Align fiduciary duties and responsibilities.
5. Improve the custodian relationships.

Upon submission of our final report, and with input from the RSIC, we prepared a matrix which described for each recommendation the criticality, degree of difficulty, whether Commission involvement was needed, and whether outside entities needed to be involved or if their support was needed. The full final report is available online at:

<http://oig.sc.gov/Documents/FAS%20Final%20RSIC%20Fiduciary%20Audit%20Report%20April%2018%202014.pdf>

FAS team members have presented recommendations to the South Carolina Senate Subcommittee on Retirement System Investments on three occasions during 2014, the most recent on November 13, 2014. At that time, the Subcommittee voted to include all of the FAS legislative recommendations in their initial draft legislation to be put forward in the 2015 legislative session.

The team which conducted this review included Rick Funston, Randy Miller, Keith Bozarth, Virginia Brizendine, Marv Damsma, Lance Ihinger (from Cutter Associates), Keith Johnson, Ken Johnson, and Jon Lukomnik.

School Employees Retirement System (SERS) of Ohio – Fiduciary Audit

Background of the retirement system: The School Employees Retirement System (SERS) of Ohio is a defined benefit public pension fund that provides pensions and access to health care coverage for over 121,000 active school employees, 107,000 inactive members, and over 72,000 benefit recipients. Assets managed by SERS at the end of fiscal 2015 were \$12.8 billion.

Primary areas of focus: Fiduciary audit of investment operations which included: the process through which the asset/liability study (ALS) and discount rate were developed; the legal and regulatory framework which governs investment operations; the policy framework included in the Statement of Investment Policy (SIP); compliance with investment-related laws, regulations and policies; operations and practices of the investment operations; and, internal controls for selected key processes.

Size and complexity: This engagement was completed with a core team of eight people over a period of five months.

Results: With the exception of one recommendation requiring legislative changes, all of the sixty improvement recommendations have been addressed by the SERS Board and staff.

Overview: Funston Advisory Services was engaged by SERS of Ohio to perform a fiduciary audit of its investment operations. Project work was initiated in January 2013 and was completed in May 2013. The scope of our engagement included:

- Alignment of fiduciary duties and responsibilities with authorities
- Investment policy framework and policy implementation
- Investment operations compliance, performance, and controls
- Identify relevant leading practices and improvement opportunities

We accomplished the fiduciary audit through the following workstreams:

1. Review the process through which the asset/liability study and discount rate were developed
2. Review the legal and regulatory framework which governs SERS
3. Review the Statement of Investment Policy (SIP) and related investment policies
4. Review compliance with investment-related laws and policies and identify any potential gaps
5. Review practices and performance of investment operations
6. Review and assess the control environment and internal controls for key processes

This review included a targeted benchmarking process with twelve other state public pension funds with AUM ranging from \$7 billion to \$15 billion. Topics addressed included staffing profile, internal asset management, asset/liability study policies and responsibilities, Board Audit Committee profile, internal auditor reporting relationship, board education plans and venues, internal investment committee profile, and custodial relationship profile.

The final report was presented to the SERS Board of Trustees during their May 2013 meeting and was well received. We have been told by the Executive Director that all the improvement recommendations which could be addressed by the SERS staff have been implemented.

The team which conducted this review included Rick Funston, Randy Miller, Keith Bozarth, Art Hewig, Keith Johnson, Ken Johnson, Jon Lukomnik and Tony Oliveira.

New York State Common Retirement Fund – Fiduciary and Conflict of Interest Review

Background of the retirement system: The New York State Common Retirement Fund (“CRF” or the “Fund”) is the third largest state public pension trust in the United States and among the largest pools of institutional capital globally. The CRF holds assets in trust for over one million public sector members, retirees, and beneficiaries of the New York State and Local Employees’ Retirement System and the New York State and Local Police and Fire Retirement System, which include over 3,000 participating employers. As sole trustee of the CRF, the Comptroller is responsible for the investment, oversight, and management of the assets of the Fund to provide retirement and other benefits for current and future members, retirees and beneficiaries of the System. As of March 31, 2015, the Fund had invested assets of \$184.5 billion.

Primary areas of focus: Fiduciary and conflict of interest review of the investment-related operations of the Fund.

Size and complexity: This engagement was completed with a core team of eight people over a period of five months.

Results: Our recommendations were accepted by the Comptroller and have been largely implemented over the past three years. A progress review was conducted by Internal Audit staff of the Comptroller’s Office. FAS findings were evaluated and implementation of recommendations were tracked. A second statutorily-required review will be commissioned for early 2016 which will review the extent of the implementation of the FAS recommendations.

Overview: In the summer of 2012, Funston Advisory Services LLC was selected by the Office of the State Comptroller of New York to conduct a fiduciary and conflict of interest review of the New York State Common Retirement Fund (CRF). The review was initiated during August 2012 and completed in January 2013.

The final report independently determined the extent to which:

1. The Comptroller is effectively fulfilling his fiduciary obligations;
2. There is a strong framework of governance in place to manage the fund;

3. The highest standards are employed with regards to ethics, professionalism, and conflicts of interest;
4. The fund is managed in an efficient and effective manner; and
5. There is a high level of operational transparency.

Prospectively, the policies, procedures and practices of the CRF were evaluated with respect to leading, prevailing, and lagging practices in use at comparable public pension funds in the U.S. and internationally.

The review included eight work streams conducted in parallel over duration of the review:

1. An overall benchmarking process
2. A review of fiduciary responsibilities and decision-making processes
3. A review of ethical, professional, and conflict of interest standards
4. An analysis of operational transparency
5. Review of investment-related operations
6. Review of use of external managers and consultants
7. Review of investment accounting processes
8. Review of due diligence practices

The FAS team reviewed over 1700 documents, interviewed CRF executives, advisory board members, external managers and consultants, and conducted a comprehensive benchmarking process. The customized benchmarking approach for the CRF included utilizing the existing FAS database of leading and prevailing practices in major public pension funds, completing a new CEM Benchmarking investment benchmarking report, and an extensive, custom benchmarking process to address review areas not included in the existing FAS or CEM databases, including fiduciary responsibilities, ethical, professional and conflict of interest standards, transparency, investment operations, use of external managers and consultants, investment accounting, and due diligence.

The final report for this review is available at

http://www.osc.state.ny.us/reports/pension/NYSCRF_Fiduciary_and_Conflict_of_Interest_Review.pdf .

The team which conducted this review included Rick Funston, Randy Miller, Keith Bozarth, Virginia Brizendine, Keith Johnson, Ken Johnson, and Jon Lukomnik.

Oregon Investment Council – Fiduciary Governance Review

Background of the retirement system: The Oregon Investment Council (OIC) oversees the investment of most funds managed by the Office of the Oregon State Treasurer (OST), including the Oregon Public Employees Retirement Fund (OPERF). The Oregon State Treasurer Investment Division manages a portfolio with a market value of over \$86 billion; the portfolio includes the OPERF, the State Accident Insurance Fund (SAIF), the Oregon Short Term Fund (OSTF), and numerous smaller funds such as the Common School Fund and the Oregon Growth Account. With assets exceeding \$71 billion, OPERF was recently ranked the 21th largest pension fund in the U.S.

Primary areas of focus: Effectiveness and efficiency of investment operations and alignment of fiduciary responsibilities.

Size and complexity: This engagement was completed with a small core team (four people) over a short time period (two months); it included an expert panel (five people) to provide counsel on policy and leading practice.

Results: A bill was introduced in the Oregon state legislature to establish Treasury's Investment Division as a public corporation; the bill did not pass in the 2013, 2014 or 2015 legislative sessions. As a result, the OIC and Treasurer are pursuing opportunities to strengthen governance and risk management within the existing governance structure.

Overview: In December 2011, Funston Advisory Services LLC was retained by the OIC, through the OST, to identify and evaluate alternatives to improve the effectiveness and efficiency of investment operations and thereby better fulfill their respective fiduciary responsibilities. Options to be considered included optimizing within the existing structure as well as consideration of potential new structural and governance models.

FAS, with the assistance of Reinhart Boerner Van Deuren s.c., performed an analysis of governance structured around nine relevant powers, including 66 discrete authorities, and where those authorities resided organizationally. We sought to answer the questions: What are the key decisions? Who gets to make them? What do they need to make the best decision under the circumstances? How are we doing?

Although this project was completed in a very short time frame, the approach included an internal analysis as well as an external benchmark analysis. In addition, preliminary results were reviewed by an expert panel drawn from the FAS Governance Expert Network which included Keith Ambachtsheer, Peter Clapman, Jon Lukomnik, Michael Musuraca and Christianna Wood.

The results of the FAS study were discussed in an OIC workshop session and were well received. The OIC subsequently formed a committee to further evaluate the options which were identified in the FAS study and develop a path forward. As a result of the efforts of the Oregon Treasurer and the OIC, a bill was introduced in the Oregon state legislature to establish Treasury's Investment Division as a public corporation. The Deputy Treasurer stated that the FAS study was "foundational" in the Treasurer seeking this legislation. As the bill did not reach the floor during the 2013, 2014 or 2015 legislative sessions, the OIC and Treasurer are addressing governance and risk management improvement opportunities within the current governance structure. FAS is currently providing support in development of a new Governance Policy Manual for the OIC.

Rick Funston and Randy Miller from FAS and Keith Johnson from Reinhart Boerner Van Deuren s.c. led and conducted this engagement, with assistance from Ken Johnson, and Keith Ambachtsheer, Peter Clapman and Jon Lukomnik served on the expert panel.

California Public Employees' Retirement System (CalPERS) – Board Governance and Effectiveness Project

Background of the retirement system: The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with total net assets of \$295 billion as of November 2015. Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.7 million people and over 3,000 school and public employers. The CalPERS Board of Administration is the fiduciary body responsible for oversight of both the investment operations and pension and health care administration.

Primary areas of focus: Board oversight, governance practices, accountability and decision-making; it addressed investment operations only from a Board policy level.

Size and complexity: This engagement was completed with a small core team (four people) over a seven-month time period; it included a large expert panel (eleven people) to provide counsel on policy and leading practice.

Results: Sweeping governance reforms were implemented in an effort to strengthen accountability, efficiency, transparency and ethics; in total, fifty-one FAS recommendations were implemented.

Overview: The overall role of the President of the CalPERS Board of Administration is to lead the Board in the conduct of Board business by managing the affairs of the Board and ensuring the integrity of the Board's processes. Consistent with this mandate, during March 2011 the Board President commissioned Funston Advisory Services LLC to perform a Board Governance project to examine significant areas of Board oversight, governance practices, accountability and decision-making, with the purpose of improving the effectiveness of the CalPERS Board of Administration in meeting its fiduciary duties.

The project identified leading practices in six areas:

1. Principles for Effective Governance of Public Pension Funds
2. Board Powers Reserved and Delegation of Authority
3. Board Governance (Charters, Risk Oversight)
4. Board Self-Assessment
5. Board Self-Development
6. Selected Policies Governing Board Conduct

Options were identified and prepared in each area for consideration by the Board and customized to CalPERS specific requirements. Interim reports were submitted to the CalPERS Board Governance Committee and full Board for discussion in July, August and September 2011. All approved recommendations were included in the final report which was completed in September 2011.

Funston Advisory Services LLC (FAS), with the assistance of CalPERS fiduciary counsel, Reinhart Boerner Van Deuren s.c., collaborated with the CalPERS Board and executive staff over the time period March-September 2011 to develop a set of recommendations based upon an extensive set of activities and analyses, including:

- Review of numerous CalPERS and external documents;
- Review of the websites of the 50 largest U.S. public pension funds and 12 selected international

pension funds, including an analysis of their governance structures;

- Completion of a governance benchmark survey and analysis with 16 leading large pension funds (domestic and international), including identification of leading practices in public pension fund governance;
- Extensive interviews with CalPERS Board members, executives, and others;
- Development of a survey of leading practices regarding independent reinsurance (both public and private sector);
- Identification of leading practices in Board self-assessment and Board self-development; and,
- Development of governance principles for public pension funds based upon leading practices.

At the conclusion of the seven-month project, the Board of Administration approved a series of sweeping governance reforms in an effort to further strengthen accountability, efficiency, transparency and ethics at the nation's largest public pension fund. The changes provided a framework for supporting new policies and practices to improve the effectiveness of the 13-member Board, its committees and governance processes.

Rick Funston and Randy Miller from FAS and Keith Johnson from Reinhart Boerner Van Deuren s.c. led and conducted this engagement. Jon Lukomnik, Stephen Davis and Peter Clapman, among others, served on the expert panel.

Specific Areas of Experience

You should include other information you believe may be relevant in demonstrating your capabilities in performing the fiduciary audit, including other professional experience and data processing capabilities. Please include your firm's experience and capability regarding all of the following:

Information technology capabilities: FAS fiduciary reviews with the New York State Common Retirement Fund, South Carolina Retirement System Investment Commission and the Public Employee Benefit Authority, and the New York City Bureau of Asset Management all included reviews of the information technology environment and capabilities, as well as evaluating business continuity and disaster recovery plans and capabilities.

On the team for this proposal, we have three team members with extensive IT experience and expertise. Joe Szmazinski is a leading IT consultant and executive with over 40 years of IT operations (technology and applications) and cybersecurity experience. Gina Eubanks has extensive IT experience from an internal audit perspective and is a Certified Information Systems Auditor (CISA). Todd McGowan has extensive IT experience, including having responsibility for data and record retention and business continuity management for a commercial bank.

Reviewing internal trading and trade processing operations: The recent FAS fiduciary review of the New York City Bureau of Asset Management included a review of internal trading operations. In addition, FAS, working with Cutter Associates, is currently performing a study for the Indiana Public

Retirement System to evaluate feasibility of managing certain asset classes internally. Jon Lukomnik has experience in overseeing internal trading operations as the former Deputy Comptroller for New York City.

Reviewing internal operational and investment risk controls: FAS has reviewed internal operational and internal risk controls during our reviews of the New York State Common Retirement Fund, the School Employee Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management.

For this project, we have three team members with extensive experience in risk management and controls. Rick Funston was previously the National Practice Leader for Governance and Risk Oversight for Deloitte & Touche. Todd McGowan was Executive Vice-President and Managing Director, Regulatory Affairs and Operational Risk for Flagstar Bank and was previously Executive Vice-President and Chief Risk Officer for four years. Gina Eubanks was Vice President of Professional Services at the Institute of Internal Auditors (IIA) and has earned the status of Certified Internal Auditor (CIA), Certification in Risk Management Assurance (CRMA), Certification in Control Self-Assessment (CCSA), and Certified Information Systems Auditor (CISA).

Reviewing ancillary investment functions such as cash management, securities lending, proxy voting, shareholder litigation, and regulatory reporting: Each of these areas was reviewed by FAS during our fiduciary reviews of the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management.

On this team, Ken Johnson led the reviews of securities lending and regulatory reporting, Keith Johnson reviewed proxy voting and shareholder litigation, and Jon Lukomnik reviewed cash management. Jon Lukomnik was also responsible for the New York City pension funds' proxy voting as the former Deputy Comptroller.

Reviewing external manager and advisor selection processes, fee structures, reporting, and oversight: These areas were within the scope of our reviews at the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management.

On this team, Jon Lukomnik led review of the external manager and advisor selection process reviews and fee negotiations and Ken Johnson led review of the fee structures, reporting and oversight.

Reviewing investment accounting processes, performance computation processes, and custodial support: Each of these areas was within the scope of our reviews at the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement

System Investment Commission, and the New York City Bureau of Asset Management. Ken Johnson led the review of custodial support during these reviews. Todd McGowan led review of investment accounting processes and the performance calculation for the New York City Bureau of Asset Management.

Reviewing the staffing, structure, and employee satisfaction of investment organizations: Each of these areas was within the scope of our reviews at the New York State Common Retirement Fund, the School Employees' Retirement System of Ohio, the South Carolina Retirement System Investment Commission, and the New York City Bureau of Asset Management.

Ken Johnson and Randy Miller led the review of these areas for each of these projects.

Reviewing incentive compensation programs for public investment organizations: Many of our public retirement systems do not have incentive compensation programs either due to legislative restrictions or a philosophical belief that they are inappropriate. Having said that, we have reviewed overall compensation programs, typically in conjunction with an existing compensation study conducted by an independent third party, during several of our fiduciary reviews.

Ken Johnson was the COO/CFO of the State of Wisconsin Investment Board (SWIB) for ten years where he had a significant role in developing the justification for enhanced incentive compensation. He led the FAS reviews of the status of incentive compensation at the South Carolina Retirement System Investment Commission and SERS of Ohio.

Conducting an asset/liability study and developing an investment policy for a defined-benefit public pension plan: FAS does not conduct asset/liability studies and is not an investment advisor which provides financial advice and develops investment policy. However, we have reviewed the process by which asset/liability studies and investment policy are developed as part of the normal scope of our fiduciary reviews with the School Employees' Retirement System of Ohio and the South Carolina Retirement System Investment Commission.

III. STAFF QUALIFICATIONS

Each proposal shall describe the qualifications of all management and lead professional personnel who will participate in the fiduciary audit. Each personnel description shall include: (1) a resume; (2) a summary of experience each has had in performing fiduciary audits or studies of public employee retirement systems; and (3) a management plan identifying the responsibilities each will have on the audit. Each proposal shall also include a description of your firm's procedures in the event that a key person assigned to this engagement leaves your firm during the engagement.

Each 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 person'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 work, 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 SERS. You may reference, rather than repeat, duplicative information provided in paragraph 3.2, Capabilities and Experience. The experience summaries also should describe the work performed and detail the roles and responsibilities that the individual staff had on the projects.

Proposed Project Team

Funston Advisory Services LLC (FAS) was formed in 2010. The principals have been providing governance, strategy and risk advisory services since at least 1980. FAS works with a network of public pension retirement system experts who operate as independent subcontractors to FAS, including specialized firms, such as Reinhart Law and Cutter Associates. Each team member is a highly-experienced professional, with decades of consulting, legal and/or pension industry experience. Our team has worked together on a series of high-profile governance assignments:

- California Public Employees' Retirement System (CalPERS) – Board Governance and Effectiveness Project
- Oregon Investment Council – Fiduciary Governance Review
- New York State Common Retirement Fund – Fiduciary and Conflict of Interest Review
- Trust Fund for the People of the Federated States of Micronesia – Governance Review
- School Employees Retirement System (SERS) of Ohio – Fiduciary Audit
- South Carolina Retirement System Investment Commission (RSIC) – Fiduciary Performance Audit
- South Carolina Public Employee Benefit Authority (PEBA) – Fiduciary Performance Audit
- New York City Comptroller's Office Bureau of Asset Management – Management and Operations Study and Best Practice Review

These engagements were unique assignments which required a customized approach and an in-depth understanding and review of governance structures and fiduciary responsibilities, critical decision-making processes, delegations of authority, investment operations, and accountabilities. The reviews frequently involved extensive benchmarking and original research to identify and describe leading and prevailing practices in a range of governance and operational areas.

Our proposed project team includes most of the members of the team which conducted a fiduciary review of SERS of Ohio in 2013. Biographies of each team member proposed for this SERS of Ohio fiduciary performance audit are included below. Information regarding the types and sizes of public employee retirement systems for which proposed team members have completed work, 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 SERS can be found in *Section II. Capabilities and Experience*.

FAS has not had a project team member leave the firm during a project. However, in the event that a team member is not available to work on this project as planned for any reason, FAS project leadership will identify alternative approaches to completing the activities assigned to that person, including reassigning those tasks to other team members or bringing in a different team member from the FAS network. Those options will be discussed with the ORSC project liaison and we will mutually agree on the most appropriate course of action.

Rick Funston

Frederick (Rick) Funston is the Managing Partner of Funston Advisory Services LLC, focusing on governance, strategy and risk intelligence. In 2001, he created the concept of risk intelligence for both value creation and value protection. He is a frequent public speaker both domestically and internationally and he is the principal author of *Surviving and Thriving in Uncertainty: Creating The Risk Intelligent Enterprise™*, published by John Wiley & Sons in April, 2010. This book is specifically targeted at the governance and risk oversight needs of boards and executives in both public and private sectors.

Rick has recently led the Management and Operations Study and Best Practice Review of the New York City Bureau of Asset Management (BAM) for the New York City Comptroller and the Fiduciary Performance Audit of the South Carolina Public Employee Benefit Authority for the Office of the Inspector General. He also led Fiduciary Audits for the South Carolina Retirement System Investment Commission (RSIC) and the School Employees Retirement System (SERS) of Ohio, where the emphasis was on governance, policies and procedures in the investment operations and identifying improvement opportunities. He led a Fiduciary and Conflict of Interest Review for the New York State Common Retirement Fund (NYS CRF), a review of governance structure alternatives for the Oregon Investment Council, and Board Governance Improvement, Enterprise Risk Management, and Stakeholder Relations projects at CalPERS.

He has provided board and executive education for CalPERS, the State Universities Retirement System of Illinois, Fairfax County Retirement System, Indiana Public Retirement System, Maryland State Retirement and Pension System, and the Washington State and State of Wisconsin Investment Boards.

Rick retired from Deloitte & Touche LLP in May 2010 and formed Funston Advisory Services LLC. Prior to his retirement, he was the National Practice leader for Deloitte's Governance and Risk Oversight Services. In that capacity, he served many of Deloitte's largest domestic and global clients and was responsible for the thought leadership that currently underpins Deloitte's globally pre-eminent position in risk intelligence.

He has over forty years' experience in both not-for-profit and for-profit sectors. Before joining Deloitte, Rick was the CEO of Continuous Improvement Services Inc. He began his career in the public sector consulting on strategy and operations, organization and leadership development, performance management, program evaluation and survey research.

Rick has been a guest lecturer at the Yale School of Management and Princeton University. He also served on the Board of Visitors for the Oakland University School of Business Administration from 2009-2011 and is an Adjunct Professor for the executive MBA program. He was awarded a B.A. from York University in Ontario and an M.S.W. from Tulane University.

Rick will be the overall project leader for this review and will support the Investment Policy and Oversight and Risk Management and Controls reviews.

Randy Miller

Randall (Randy) W. Miller has been a Principal with Funston Advisory Services LLC since its founding in 2010. He has been a leader of our fiduciary and operations reviews and is an expert in public retirement system governance. He also has led Board workshops with the Ohio Police & Fire Pension Plan and the Oregon College Savings Plan and authored several white papers on public retirement system governance. He has extensive experience in planning and conducting complex reviews and improvement programs in large organizations.

Randy recently concluded his role as project manager on the New York City BAM study and was previously day-to-day project manager and leader of the benchmarking process for our South Carolina PEBA and RSIC, New York State CRF and SERS of Ohio engagements. He was also recently the lead consultant on an engagement for the Office of the Oregon State Treasurer examining Oregon's pension investment governance structure, and also was actively involved in three projects at CalPERS which: 1) developed Board governance reforms; 2) developed their enterprise risk management program; and 3) assessed and developed strategies for improving stakeholder relations. He led the CalPERS governance benchmarking, a critical part of the governance reforms review, and co-led the governance structure benchmarking for the Oregon project. He has extensive experience in operations analysis and planning, developing and directing large-scale improvement programs.

Randy retired from Deloitte Consulting LLP in February 2010 after 27 years of service, where he most recently led Mergers & Acquisitions Integration Services to manufacturing industry clients. He has significant international consulting experience, led Deloitte's global automotive industry consulting practice, and was based in Germany with Deloitte from 1997-2003, where he led Deloitte Consulting DACH (Germany, Austria, Switzerland) for two years. He specialized in planning and implementation of

mergers, acquisitions and divestitures; market and supply chain strategy; and cost reduction/ operations improvements.

Randy has led a variety of benchmarking studies, including board governance, investment operations, overhead cost structure, information technology strategies, and business transformation strategies. Randy received an A.B. degree from Dartmouth College with a major in Engineering Sciences. He also received a B.E. from the Thayer School of Engineering and an M.B.A. from the Amos Tuck School of Business, both also at Dartmouth. Prior to Deloitte, Randy was a car product planner at Ford Motor Company.

Randy will be the project manager and liaison with the ORSC and SERS for this review and will also support activities in the sections on Board Governance and Administration, Organizational Structure and Staffing, and Investment Policy and Oversight.

Gina Eubanks

Gina L. Eubanks has an extensive background in advisory services over 20 years in the internal audit profession and six years as a Board Audit Committee member for a large credit union. Through her work in both the United States and India, she has built a reputation for driving significant growth of strategic internal audit resource capabilities.

Gina frequently consults and facilitates on the topics of risk management, quality assurance and improvement programs, internal audit management, facilitation skills, and various governance related topics. She recently co-authored, "Leveraging COSO Across the Three Lines of Defense," published by Committee of Sponsoring Organizations of the Treadway Commission.

Most recently, Gina was Vice President of Professional Services at the Institute of Internal Auditors (IIA) where she led quality assessment reviews, chief audit executive services and industry knowledge centers. During that time, she facilitated many chief audit executive events and the development of thought leadership related to emerging trends. Prior to joining the IIA, Gina was an internal audit director at a mortgage processing company and at Deloitte & Touche LLP for 15 years.

Gina holds several designations: Certified Internal Auditor (CIA), Certification in Risk Management Assurance (CRMA), Certification in Control Self-Assessment (CCSA), and Certified Information Systems Auditor (CISA). She earned a bachelor's degree in accounting from Middle Tennessee State University and attended an executive leadership program at Wharton School of Business at the University of Pennsylvania.

Gina will co-lead the Risk Management and Controls and support the IT Operations reviews.

Keith Johnson

Keith L. Johnson is an attorney who heads the Institutional Investor Legal Services team at Reinhart Boerner Van Deuren s.c. (Reinhart Law). Keith represents pension funds and institutional investors on fiduciary, investment, securities litigation and corporate governance program matters. He was program

director of the Wisconsin International Corporate Governance Initiative at the University of Wisconsin Law School, while serving as an adjunct professor of law.

Keith and his team from Reinhart Law were teamed with FAS in performing the CalPERS governance review, the governance structure review for the Office of the Oregon State Treasurer, the fiduciary and conflict of interest review with the CRF, the SERS of Ohio fiduciary audit, and the South Carolina RSIC and PEBA fiduciary performance audits. The Reinhart Law team is currently assisting the Oregon Treasurer's Office in developing a Member Orientation and Reference Manual for the Oregon Investment Council.

Keith was formerly legal counsel to the State of Wisconsin Investment Board (SWIB), the ninth largest public pension fund in the United States, for more than 21 years, including almost seven as chief legal officer. In that capacity, he headed SWIB's fiduciary duty compliance, corporate governance, investment, legal services and securities litigation programs and was a member of SWIB's Risk Committee. He also served as a Board Member and President of the National Association of Public Pension Attorneys (NAPPA).

Keith regularly represents institutional investors in negotiation of investment manager and private market investment agreements and provides counsel on corporate governance, securities litigation and fiduciary duty to many of the world's largest pension funds and institutional investors. He and the Institutional Investor Legal Services team at Reinhart Law have provided investment, benefits, insurance, tax and fiduciary counsel services to a number of public pension funds, including CalPERS, the State of Wisconsin Investment Board, New York City Pension Funds, Texas Teachers Retirement System, North Carolina State Treasurer, Connecticut State Treasurer, Kentucky Retirement Systems, Employees Retirement System of the State of Hawaii and Milwaukee City and County pension boards. He is co-editor of the Cambridge University Press Handbook of Institutional Investment and Fiduciary Duty.

Keith is a member of the State Bar of Wisconsin and the State Bar of Texas. He earned a J.D. degree from the University of Wisconsin Law School and a B.A. from the University of Wisconsin-Madison.

Keith will lead the Board Governance and Administration and Legal Compliance reviews and support the Investment Policy and Oversight section.

Ken Johnson

Kenneth (Ken) W. Johnson retired from the State of Wisconsin Investment Board (SWIB) in 2010. He has worked with FAS since 2012 and led the review of investment-related operations and use of external managers and consultants on our assignments with the South Carolina RSIC, SERS of Ohio, the NYS CRF, and New York City BAM, and he also assisted with our Oregon Investment Council engagement. He became Administrator for Global Investor Collaboration Services, LLC after retiring at the end of 2010 as Chief Operating Officer and Chief Financial Officer for SWIB.

As COO/CFO for over 10 years, Ken had oversight of SWIB support services including financial operations, information technology, communications with the public, and cost-effectiveness benchmarking. He previously served as a team leader and analyst for the nonpartisan Wisconsin

Legislative Fiscal Bureau and as Executive Assistant to the Secretary of the Wisconsin Department of Veterans Affairs.

Ken was a board member and treasurer for Summit Credit Union, one of the largest credit unions in Wisconsin, for six years. He served as a board member and investment committee chair for the Wisconsin College Savings Program (EdVest) for 15 years. He is currently an outside director and audit committee member for Bankers' Bank, which supports community banking services in the Midwest. Ken holds a bachelor's degree from Northwestern University and a master's degree in public policy administration from the University of Wisconsin-Madison. He also holds the Claritas® Investment Certificate from the CFA Institute.

Ken will lead the review of Organizational Structure and Staffing and support the Board Governance and Administration and Investment Policy and Oversight reviews.

Megan Jackson

Megan K. Jackson is an attorney at Reinhart Boerner Van Deuren s.c. (Reinhart Law) in the firm's Employee Benefits Practice and Institutional Investor Services Group. She is currently assisting the FAS team in developing a new Governance Policy Manual for the Oregon Investment Council. She works closely with a range of benefits providers, including domestic and global pension funds. Megan is also an experienced business law attorney, specializing in drafting and negotiating commercial contracts.

In the area of private markets investments, Megan has analyzed and negotiated the legal and economic terms of investments in private equity funds, hedge funds and alternative investment vehicles on behalf of domestic and foreign institutional investors. (The Reinhart team represents 11 of the 50 largest pension plans in the world and 27 of the 300 largest pension plans in connection with alternative investments, corporate governance, fiduciary matters and securities litigation.) She also works with senior attorneys to review investment management agreements, wrap master agreements, ISDA master agreements and related investment documentation. Megan has also analyzed and negotiated the legal and economic terms of investments in private equity funds, hedge funds and alternative investment vehicles on behalf of domestic and foreign institutional investors.

Megan is a member of the State Bar of Wisconsin. She is also a member of the Madison Public Library Board of Directors and the Madison Public Library Foundation. She serves on the Wisconsin Governor's Conference on Minority Business Development. Megan received her J.D. from the Indiana University Law School-Bloomington, completed a Course of Study at the University of Hong Kong, and earned her B.A. at the University of Illinois.

Megan will support the Legal Compliance review.

Jon Lukomnik

Jon Lukomnik led the evaluation of hiring and firing of external managers and consultants and due diligence and monitoring procedures during the NYC BAM, SERS of Ohio, NYS CRF and South Carolina

RSIC reviews. Jon is managing partner of Sinclair Capital L.L.C., a strategic consultancy to corporations, institutional investors and the investment management industry. He has provided risk management, product development, due diligence, fund selection and portfolio construction services to various institutional investors. Clients have included Nikko Asset Management, Legg Mason, SBLI Mutual Life Insurance Company, and NS Capital. He currently serves on two investment committees. Jon is a trustee for the Van Eck mutual fund complex. He has also been a director for various public companies, private companies, not-for-profit corporations and litigation trusts.

Jon was deputy comptroller for pensions for the City of New York in the mid-1990's, where he was the designated investment advisor for the City's five defined benefit pension funds and was investment advisor for defined benefit plans totaling \$80 billion in assets, as well as the City's own treasury. In total, he has served as investment advisor or trustee for more than \$100 billion in assets under management for various trusts, pension funds, endowments and asset management companies.

Over the course of his career, he has conducted more than 1,000 due diligence and external asset manager monitoring meetings. Jon was named by the National Association of Corporate Directors as one of the 100 Most Influential People in America for Corporate Governance in 2011 and 2012. He was the International Corporate Governance Network's 2013 honoree for "excellence in corporate governance." He was recently appointed to the Standing Advisory Group of the Public Company Accounting Oversight Board (PCAOB) for a three-year term beginning in 2015.

A frequent contributor to both academic and practitioner publications, Jon co-authored the award-winning book, *The New Capitalists: How Citizen Investors Are Reshaping the Corporate Agenda* (Harvard Business School Press, October 2006) and writes a monthly column for *Compliance Week*.

Jon will lead the Investment Policy and Oversight review.

Todd McGowan

Todd McGowan has broad experience in leading teams involved with governance, risk management, business process, information technology and internal control audits. He is a senior leader with demonstrated ability to identify cost savings and implement process improvements. His industry experience in serving clients includes manufacturing, financial services, energy and healthcare/insurance. He participated on the FAS teams which performed reviews with South Carolina PEBA and New York City BAM.

Most recently, Todd was Executive Vice-President and Managing Director, Regulatory Affairs and Operational Risk for Flagstar Bank in Troy, Michigan. In this role, his duties included preparing and presenting remediation status updates to the Bank's Board of Directors and its Compliance, Audit and Risk Committees. He developed action plans based on the findings and recommendations arising from supervisory letters and regulatory examinations. He also managed the bank's ERM Operational Risk functions which included SOX financial compliance, vendor risk management, commercial appraisal group, model risk management, data and record retention, and business continuity management.

In his prior role as Executive Vice-President and Chief Risk Officer for four years, his responsibilities included ensuring the institution was in substantial compliance with internal operating policies and

procedures as well as regulatory requirements. He also reorganized and centralized ERM and Compliance functions previously maintained within the bank's operational business units. This included hiring a Chief Credit Risk Officer, Chief Compliance Officer, Chief Audit Executive and head of Business Continuity Management. He also co-sourced certain functional ERM activities until internal capabilities were developed and matured, including Internal Audit (technical audits), Commercial Loan Review, and Data and Records Management.

Prior to Flagstar Bank, Todd was a partner with Deloitte & Touche where his roles included Regional Quality Risk Management Partner, Regional Internal Audit Practice Leader, Regional Enterprise Risk Services Leader, and Regional Controls Assurance Leader. He led engagement teams in delivering cross functional services within the Enterprise Risk Services group as well as teamed with subject matter specialists from the Audit and Consulting functions of Deloitte.

Todd received his B.S. in Accounting and MBA from the University of Detroit.

Todd will co-lead the Risk Management and Controls and support the IT Operations reviews.

Joseph Szmazdzinski

Joe Szmazdzinski specializes in realigning and implementing IT strategies and change to improve and better support a client company's business model. He has served as interim Chief Information Officer (over 14 times) or as an advisor to Company Boards, Chief Executives or IT Officers to assess, plan, troubleshoot, restructure and manage client systems during turnaround, performance and profit improvement efforts. Joe has served clients in a wide variety of industries including financial services, energy, manufacturing, logistics and retail. He has significant experience integrating disparate Business and IT environments by realigning them to support an improved business model, whether at an enterprise or strategic business unit level. Having managed and constructed hundreds of outcomes, he is viewed as an expert in vendor/provider relationships; Enterprise Resource Planning Systems; Software as a Service; IT assessments; governance (ITIL); and contracting for project, outsourcing and managed services.

Joe recently served as CIO of Methanex, Surgical Care Affiliates, Barr Pharmaceuticals/Laboratories (2006-8), Hayes Lemmerz (2002-3) and Champion Enterprises (2003-4) where he rationalized the financial and operating systems, consolidated and directed the IT groups, and assisted the companies in locating a permanent Chief Information Officer. He was the CEO of several technology firms - - Netregulus, Edcor Systems and Agency Services Group. He also held the position of IT Restructuring Officer and Deputy Chief Information Officer during the Turnaround of Worldcom (now Verizon).

Previous assignments include performing as the interim Chief Information Officer for General Motors Acceptance Corporation, GeoLogistics, Ryder System, Costco, Hayes-Lemmerz, Deutsche Telecom (Germany), Budget Group, Continuum Health (New York City), Barr Pharmaceuticals, Surgical Care Affiliates and IFCO Systems, Inc. As Chief Information Officer of these organizations, Joe led major development efforts of major systems and infrastructure transformations in most of these environments. He served in most these roles while a Principal at AlixPartners, a leading global turnaround and transformation firm where he was Practice Lead for Information Technology and the

firm’s Chief Information Officer over ten years. Joe is also a former Consulting Partner and Practice Lead at KPMG and PwC. He began his career over thirty years ago with EDS. He holds a BS in Mathematics and Physics and an MBA from the University of Michigan.

Joe will lead the review of IT Operations and support Risk Management and Controls.

Project Team Organization and Roles

The management plan should specify the roles and responsibilities that each of the management and professional staff will have on the fiduciary audit and include an estimated portion of the audit's time that will be spent by each on the audit and the individual's hourly billable rate.

Lead professionals included on the project team should, at a minimum, have performed a fiduciary audit or study of a public employee retirement system within the last two years.

The following chart indicates the roles of each individual, denoted by “L” for leader or “S” for support for each section, as well as the planned hours for each team member.

	A. Board Governance and Administration	B. Organizational Structure and Staffing	C. Investment Policy and Oversight	D. Legal Compliance	E. Risk Management and Controls	F. IT Operations	Project Oversight and Management	Planned Hours	Hourly Billing Rate (\$)
Gina Eubanks					L	S		160	\$450
Rick Funston			S		S		L	112	\$450
Keith Johnson	L		S	L				116	\$450
Ken Johnson	S	L	S					168	\$450
Megan Jackson	S		S	S				116	\$450
Jon Lukomnik			L					168	\$450
Todd McGowan					L	S		128	\$450
Randy Miller	S	S	S				L	216	\$450
Joe Szmazinski					S	L		144	\$450

Professional Affiliations

Each proposal shall include your firm's affiliations with organizations that sponsor and support investment or fiduciary related research.

Funston Advisory Services LLC is an associate member of the National Association of State Retirement Administrators (NASRA).

Keith Johnson is a member of the Council of Institutional Investors. He is a Fellow in the American College of Investment Counsel and has been active in the National Association of Public Pension Attorneys (NAPPA). Keith is also a member of the Stanford Institutional Investor's Forum Committee on Fund Governance that developed Best Practice Principles in 2007 and supporting Model Governance Provisions in 2013.

Jon Lukomnik is Program Director for the IRRCi (Investor Responsibility Research Center Institute). He co-founded and served as a Governor for the International Corporate Governance Network (ICGN), chaired the Executive Committee of the Council of Institutional Investors, and co-chaired the Conference Board's Working Group on Hedge Fund Activism. He currently serves on the Standing Advisory Group to the Public Company Accounting Oversight Board (PCAOB).

FAS team members have also published numerous articles and books and made presentations relating to public pension fund fiduciary responsibilities and governance. The most recent examples include:

- ***“Part 1: Bringing Home the Investment: Building the Case for Internal Investment Management,”*** article written by Rick Funston, Lance Ihinger, Randy Miller, Keith Bozarth and Keith Johnson, June 2015, available at <http://www.nasra.org/investment> .
- ***“Part 2: Bringing Home the Investment: What Does It Take to Make Internal Management Work?”*** article written by Rick Funston, Lance Ihinger, Randy Miller, Keith Bozarth and Keith Johnson, June 2015, available at <http://www.nasra.org/investment> .
- ***“How Can Trustees Learn to Trust? – Achieving the Right Balance in Decision-Making between the Board and Executive Management,”*** article written by Rick Funston and Randy Miller, March 2015, available at www.nasra.org/governance .
- ***“Kick-starting an Internal Risk Management Dialogue,”*** article written by Rick Funston and Randy Miller, *Pensions & Investments*, September 29, 2014, p. 12.
- ***“New and Developing Approaches in Governance and Risk Management,”*** presentation and participation in a panel discussion by Rick Funston, NASRA 60th Annual Conference, Asheville, NC, August 5, 2014.
- ***“ERM 101 for Public Retirement Systems,”*** a series of five white papers written by Rick Funston and Randy Miller, May 2014, available at www.nasra.org/governance .

- ***“Public Pension Governance That Works,”*** white paper by Randy Miller and Rick Funston, March 2014, available at www.nasra.org/governance .
- ***“Shift Happens: Pension Funds under Pressure,”*** keynote presentation by Rick Funston to the Public Pension Financial Forum (P2F2) 10th Annual Conference, Scottsdale, Arizona, October 28, 2013.
- ***“Leading Practices in Fund Governance”*** keynote presentation by Rick Funston to the National Association of Public Pension Attorneys, Santa Fe, New Mexico, June 26, 2013.
- ***“Leading Practices in Governance and Risk Oversight”*** presentation by Rick Funston, The Conference Board, New York May 8, 2013.
- ***“Leading Practices in Fund Governance”*** presentation by Rick Funston, Institutional Investors Institute, Los Angeles, April 26, 2013.
- ***Leading Practices in Fund Governance”*** presentation by Rick Funston to the Fairfax County Retirement System Trustee Seminar, April 8, 2013.
- ***“Misadventures of an Irresponsible Investor,”*** Jane Ambachtsheer, Stephen Davis, Jack Gray and Keith Johnson, *Rotman International Journal of Pension Management*, Vol. 5, No. 2/2012, Page 8 (Fall 2012).
- ***“Public pension fund governance: alignment of responsibility with authority,”*** authored by Rick Funston, Keith Johnson, Randy Miller and Mark Barrott, published in the August 1, 2012 *P&I Plan Sponsor Digest*.
- ***“What Every Trustee Needs to Know About Risk,”*** presentation by Rick Funston to the Stanford Fiduciary College/National Council on Teacher Retirement Trustee Workshop, Palo Alto, July 25, 2012.
- ***“Our inability to judge time frames,”*** Jon Lukomnik, *Journal of Risk Management in Financial Institutions* (March 2012).
- ***“Say-On-Pay Lawsuits—Is This Time Different?”*** Kenneth B. Davis and Keith Johnson, Harvard Law School Forum on Corporate Governance and Financial Regulation Blog (February 5, 2012).
- ***“Reclaiming Fiduciary Duty Balance,”*** James Hawley, Keith Johnson and Edward Waitzer, *Rotman International Journal of Pension Management*, Vol. 4, No. 2, Page 4 (Fall 2011).
- ***“Auditors at the Crossroads,”*** Keith Johnson, *Corporate Compliance Insights* (July 25, 2011).
- ***“Corporate Governance in the Wake of the Financial Crisis,”*** Chapter 6, Jon Lukomnik, United Nations (2011).
- ***“Institutional Fund Managers and Portfolio Churn,”*** Danielle Guyatt and Jon Lukomnik, *International Journal of Pension Management* (Fall 2010).

- ***“Active Shareholder Stewardship: A New Paradigm for Capitalism,”*** Stephen Davis, Jon Lukomnik and David Pitt-Watson, *International Journal of Pension Management* (Fall 2009).
- ***“Modernizing Pension Fund Legal Standards for the Twenty-First Century,”*** Frank Jan de Graaf and Keith Johnson, *International Journal of Pension Management*, Vol. 2, Page 44 (Spring 2009).

IV. REFERENCES

You must include a list of organizations that may be used as references for your work on fiduciary audits 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 fiduciary audit work;*
- *Name and address of client;*
- *Name and telephone number of individual in the client organization who is familiar with the work; and*
- *Description of the work performed.*

Reference information is indicated below for the seven examples included in section *II. Capabilities and Experience*. For more complete project descriptions please refer to that section.

1. New York City Office of the Comptroller Bureau of Asset Management (BAM)

June 2015 – October 2015

Scott Evans, Deputy Comptroller for Asset Management and Chief Investment Officer

One Centre Street

New York, NY 10007

(212) 669-8318

sevans@comptroller.nyc.gov

Work performed: Best practices review of all internal BAM departments, all key external service providers, sister bureau service providers, and relationships with five retirement boards. Topics included policies, practices and procedures, staffing, investment operations, information systems, contracting, compliance, risk, financial reporting, and corporate governance.

2. South Carolina Public Employee Benefit Authority (PEBA)

October 2014 – March 2015

Patrick J. Maley, Inspector General

111 Executive Center Drive, Suite 204

Synergy Business Park

Enoree Building

Columbia, SC 29210-8416

(803) 896-4729

oig@oig.sc.gov

Work performed: Fiduciary performance audit of the retirement and health insurance operations, including Governance, Policy Review and Development, Organization Structure, Communications with Stakeholders, Benefits Administration, Actuarial Matters, Legal Compliance, Customer Service, Record Keeping and Security of Information, Cost of Operations, and Information Technology Systems.

3. South Carolina Retirement System Investment Commission (RSIC)

December 2013 – April 2014
Patrick J. Maley, Inspector General
111 Executive Center Drive, Suite 204
Synergy Business Park
Enoree Building
Columbia, SC 29210-8416
(803) 896-4729
oig@oig.sc.gov

Work performed: Fiduciary performance audit of the investment commission operations, including Governance; Policy Review and Development; Organizational Structure; Investment Administration; Legal Compliance; and Information Technology.

4. School Employees Retirement System of Ohio

January 2013 – May 2013
Lisa Morris, Executive Director
300 E. Broad St., Suite 100 Columbus, Ohio 43215
(614) 222-5829
lmorris@ohsers.org

Work Performed: Fiduciary audit of investment operations which included: the process through which the asset/liability study (ALS) and discount rate were developed; the legal and regulatory framework which governs investment operations; the policy framework included in the Statement of Investment Policy (SIP); compliance with investment-related laws, regulations and policies; operations and practices of the investment operations; and, internal controls for selected key processes.

5. New York State Common Retirement Fund

August 2012 – January 2013
Helen Fanshawe, Deputy Counsel
New York State Office of the State Comptroller
110 State Street
Albany, NY 12236
(518) 474-6036
hmfanshawe@osc.state.ny.us

Work performed: Fiduciary and conflict of interest review of the New York State Common Retirement Fund, including assessing if the Fund was being managed in an efficient and effective manner.

6. Oregon State Treasury/Oregon Investment Council

December 2011 – January 2012
Darren Q. Bond, Deputy State Treasurer
350 Winter Street NE, Suite 100
Salem, OR 97301
(503) 378-4329
Darren.BOND@ost.state.or.us

Work performed: Identify and evaluate alternatives to improve the effectiveness and efficiency of investment operations and thereby better fulfill the Oregon Investment Council's fiduciary responsibilities. Options to be considered included optimizing within the existing structure as well as consideration of potential new structural and governance models.

7. California Public Employees' Retirement System (CalPERS)

March 2011 – September 2011
Grant Boyken, Deputy Treasurer
California State Treasurer's Office
Post Office Box 942809
Sacramento, CA 94209-0001
(916) 651-7427
Grant.Boyken@treasurer.ca.gov

Anne Stausboll, Executive Director and Chief Executive Officer
California Public Employees' Retirement System
Lincoln Plaza North, 400 Q Street
Sacramento, CA 95811
(916) 795-3818
Anne_Stausboll@CalPERS.ca.gov

Work performed: to examine significant areas of Board oversight, governance practices, accountability and decision-making, with the purpose of improving the effectiveness of the CalPERS Board of Administration in meeting its fiduciary duties.

V. METHODOLOGY, WORK PRODUCT, AND TIMELINE

Each proposal shall describe the proposed methodology for each element of the components listed in Section II, Scope of Audit. The description should include specific techniques that will be used, including anticipated sampling techniques and sizes, and proposed sources of data and information. You may propose alternative ways of addressing the elements of the audit'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 SERS, including assistance to understand the operations and records of SERS and to access, obtain, and analyze information needed for the audit. The description of the proposed methodology shall also identify meetings, interviews, programming support, space needs, etc., that you anticipate needing from SERS.

Each proposal shall also include one or more examples of work products for fiduciary audits that may help to illustrate the proposed methodology and final work product.

Each proposal shall provide an estimated date that the final report will be submitted and the projected timeline or the anticipated work requirements and milestone dates to reach that date.

The stated purpose of this fiduciary performance audit as stated in the RFP is: *The contractor selected under this RFP (the contractor) will review and critically evaluate the organizational design, structure, and practices of SERS overall and of its investment program. The contractor will identify areas of strengths and weaknesses in SERS, compare SERS operation with best practices of other public pension plans, and make recommendations for improvement.*

Methodology

Funston Advisory Services LLC has developed a fiduciary and governance review framework and methodology which we have used in similar assignments with other public retirement system clients (see *Section VI. Additional Information*).

For addressing an integrated retirement system such as SERS, the FAS framework starts with the overall duties of the fiduciary and conceptually addresses three major questions:

- Are the plan fiduciaries effectively assessing plan liabilities, making reasonable assumptions for investment returns and risk, and adopting prudent investment strategies?
- What is the legal, governance and policy framework under which the plans operate and how does it compare to industry practices?
- How do fund practices, procedures and performance with respect to administrative operations, compliance, and controls compare to peers, taking into considering its operating framework?

We have used the FAS framework as a check for completeness of the scope of the RFP and for identifying recommended additions to ensure that any potential gaps are covered.

The approach which follows incorporates the FAS methodology into the structure defined in the RFP. The major work steps identified are:

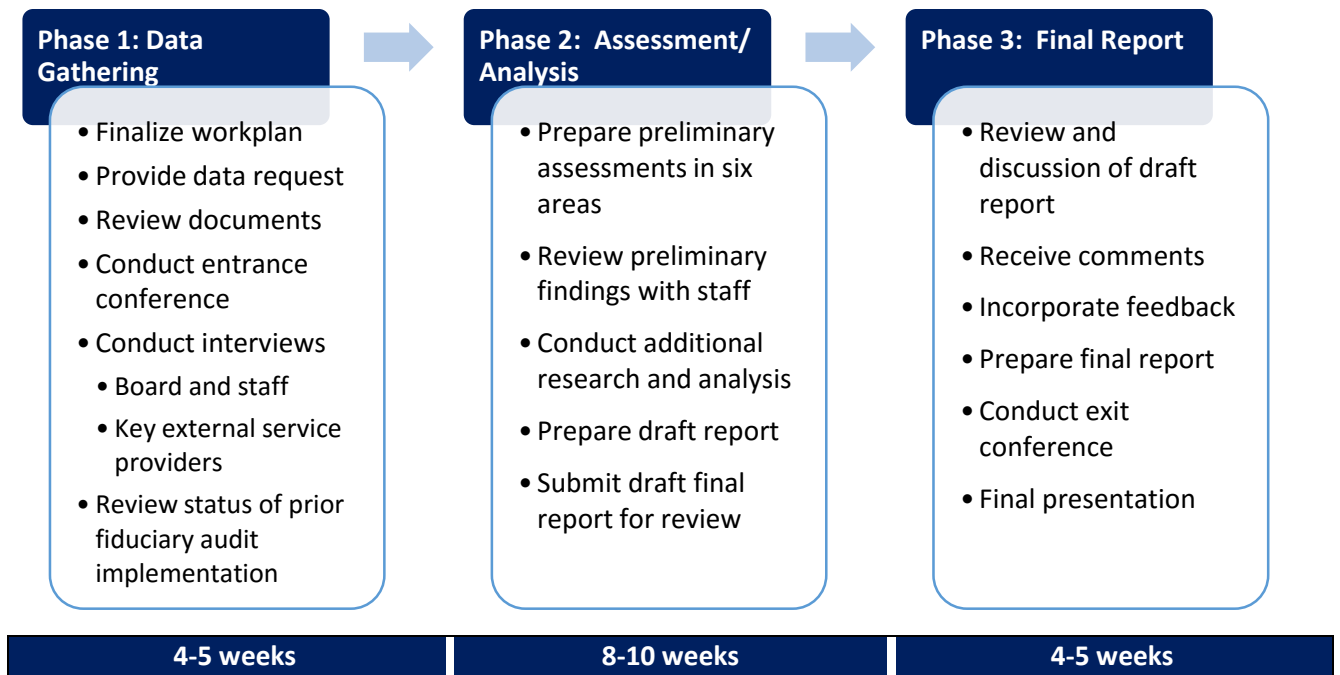
Phase 1: Data Gathering – Workplan Review and Approval, Data Collection, Entrance Conference and Interviews

Phase 2: Assessment/Analysis

1. Board Governance and Administration
2. Organization Structure and Staffing
3. Investment Policy and Oversight
4. Legal Compliance
5. Risk Management and Controls
6. IT Operations

Phase 3: Final Report – Management Review, Final Report Submission and Exit Conference

We have organized the work steps into three sequential phases of effort as shown in the graphic below:



Phase 1: Data Gathering

We will include a four- to five-week initial phase to finalize the workplan, launch the project (including the entrance meeting), collect and review documents, and conduct an initial round of interviews with the SERS Board members and staff, key stakeholders, a sampling of external investment managers, the custodial banks, the investment consultants, the actuary, and the external auditor. The data request will include a detailed system profile questionnaire to provide information about SERS' structure, policies and procedures which can be compared to peer data in the FAS benchmarking knowledgebase.

This will establish the initial data gathering and provide the basis for further analysis in Phase 2. A preliminary data request and interview list is included as *Appendix B* (to be modified when the workplan is reviewed and finalized). We will also review progress reports regarding the implementation of recommendations from the fiduciary audit of investment operations which FAS performed for SERS in 2013 to understand improvements implemented over the past three years.

Phase 2: Assessment/Analysis

After Phase 1, six workstreams will be conducted in parallel over the following eight to ten weeks as described below:

A. BOARD GOVERNANCE AND ADMINISTRATION

The contractor will perform a review of the governance structure of SERS in terms of the make-up of its Board and level of monitoring and oversight provided in its policies, procedures, and practices. The contractor shall evaluate the adequacy of the policies concerning delineation of roles and responsibilities of the Board, staff, investment managers, and others with administrative or oversight responsibilities.

Specifically, this will include an analysis of:

- Board trustee education, training, and their associated costs;*
- Whether SERS sufficiently delineates, communicates, and documents the lines of reporting and responsibility over staff responsibilities in general and in the investment program specifically and whether the role of the Board and staff are clearly defined for both;*
- The statutes and administrative rules under which SERS operates to determine if the Board and staff comply with applicable statutes and rules as well as whether the statutes and administrative rules are sufficient to allow the Board and staff to meet their responsibilities;*
- Comparison of the governance provisions and practices to industry standards and best practices in comparable systems.*
- SERS budget process and its adherence to Board approved budget;*
- Written policies and procedures currently in place to monitor and guard against professional conflicts of interest;*

- *Succession planning for key positions;*
- *Administrative costs, including determining their appropriateness compared to comparable public systems; and*
- *Communication policies and procedures of SERS between the Board, its members, and its retirees.*

For the Board governance and administration review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- Ohio statutes and administrative rules governing SERS
- SERS governance policies, including charters, delegations, position descriptions, ethics and standards of behavior policies and communications policy
- SERS Board education and training program and materials
- SERS communications policies and plans
- Interviews with Board members and SERS executive staff
- FAS governance leading policies and practices knowledgebase
- Most recent three SERS annual operating budgets and financial and operating reports
- SERS staff development and succession planning documentation
- Most recent CEM pension administration benchmarking report for SERS

FAS has significant experience in reviewing the governance structure of public retirement systems and Board policies and practices. Using the information described above, the FAS team will:

1. Assess the overall SERS governance structure, Board composition, and lines of reporting and compare with leading practices at peer state retirement systems in the U.S., with particular emphasis on investment governance
2. Review the policies and role of the Board vis-à-vis SERS staff, advisors, and external managers
3. Evaluate oversight and monitoring activities
4. Review Board and staff processes for compliance with applicable laws, administrative rules and policies
5. Review conflict of interest policies and procedures and compare with leading practices
6. Compare SERS Board authorities and performance with leading, prevailing and lagging practices at peer funds and identify if there are areas where the Board is unduly limited by regulations from fulfilling its fiduciary duties
7. Assess SERS' budgeting and monitoring processes, its administrative costs, and its

ongoing Board education program and costs and how they compare to peer retirement systems

8. Compare SERS' budgeting and expense monitoring processes with leading practices
9. Compare SERS' Board continuing education program with leading and prevailing practices at peer retirement systems
10. Review SERS' stakeholder communications policies and plans and compare to leading practices

FAS team members leading this section will be Keith Johnson, Megan Jackson, Ken Johnson and Randy Miller.

B. ORGANIZATIONAL STRUCTURE AND STAFFING

The contractor will perform a review of the overall organizational structure of SERS and its capacity and effectiveness in implementing the policy and assignments delineated by the SERS Board and management. Specifically, this will include an analysis of:

- *Staffing size, hiring procedures, staff qualifications, roles, compensation, performance evaluation requirements, and an analysis of these factors compared to other similar size public pensions;*
- *Adequacy of process to evaluate and improve customer/member satisfaction;*
- *Whether compensation levels are sufficient to facilitate SERS' ability to attract and retain qualified pension fund professionals; and*
- *Monitoring and maintaining staff qualifications and continuing education requirements.*

For the organization staffing and structure review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- SERS human resources policies and procedures
- SERS staffing reports, including hiring, termination, vacancy and retirement eligibility
- SERS position descriptions
- SERS employee evaluation policies and procedures
- Internal SERS employee satisfaction survey results
- SERS member service reports
- Most recent CEM pension administration benchmarking report for SERS
- Most recent independent compensation study conducted for SERS
- Interviews with SERS executives and staff, including the Manager of Human Resources

- SERS employee continuing education and training program materials
- FAS knowledgebase of retirement system staffing

FAS has performed similar reviews at other public retirement systems. We will rely upon existing compensation studies in evaluating the SERS compensation structure and will also rely upon existing SERS and CEM pension administration reports in evaluating member satisfaction. Using the information described above, the FAS team will:

1. Assess the organization structure, staffing and capabilities of SERS as compared to peer retirement systems
2. Review human resources policies and practices and compare to leading practices
3. Assess staff qualifications and hiring and evaluation processes
4. Evaluate SERS compensation policies and structure
5. Assess SERS processes for monitoring, measuring and improving member satisfaction
6. Review SERS staff training and continuing education policies and program and compare to peer retirement systems

FAS team members leading this section will be Ken Johnson and Randy Miller.

C. INVESTMENT POLICY AND OVERSIGHT

a. Investment policy. The contractor will perform an evaluation of the Board investment policy and procedure. The contractor will:

- *Review the process by which the investment policy is adopted and compare that process to best practices;*
- *Review the investment policy statement and compare it to industry best practices;*
- *Determine whether SERS investment policy includes all critical elements, acknowledging an understanding of SERS' financial and actuarial characteristics, and in accordance with established investment and funding goals, and risk tolerances;*
- *Evaluate whether the asset allocation is tied to the investment policy statement;*
- *Evaluate whether SERS investment policy is compatible with the most recent asset/liability study and five-year experience review;*
- *Evaluate the adequacy of the mechanisms and decision-making processes utilized for setting, periodically reviewing, and rebalancing the asset allocation;*
- *Evaluate whether SERS policy specifies to what extent the basis for particular investment decisions should be articulated in writing by the Board or SERS staff;*
- *The extent to which SERS observes its formal written investment policies and procedures, and*

identify what, if any, practical problems have resulted either on a systematic or isolated (but significant) basis; and

- *How often and by what process the Board or staff reviews SERS' written policies, guidelines, and procedures.*

For the investment policy review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- SERS current Statement of Investment Policy (SIP) and most recent prior two versions
- Interviews with SERS investment staff
- Interview with the general investment consultant
- Interviews with at least ten investment managers from a variety of asset classes, focusing on the most recently hired (to understand the current processes) and those with the largest allocations (for risk management reasons)
- Interview with the SERS actuary
- FAS investment policy and operations knowledgebase
- SERS annual investment reports for past three years
- SERS most recent asset-liability study
- SERS most recent five-year experience review
- SERS rebalancing reports from past three years
- SERS Board minutes from past three years

We will utilize the knowledge of our team members and the FAS knowledgebase to assess the contents of the SIP. The FAS team will review the SIP, the asset-liability study, investment reports and rebalancing reports to evaluate consistency of investment staff actions with policies. Using the information described above, the FAS team will:

1. Assess how the SIP is developed and updated and compare to leading and prevailing practices
2. Review the content of the SIP and compare to peer leading practices
3. Assess consistency between the SIP and the asset allocation, the asset/liability study, and the most recent five-year experience study
4. Review mechanisms and decision-making processes for periodically reviewing and rebalancing the asset allocation
5. Evaluate SERS policies and practices for documentation of investment decisions
6. Assess SERS compliance with documented investment policies and procedures and

identify any issues

7. Review SERS Board and staff policies and processes for periodic review and updating or investment policies, guidelines and procedures

FAS team members leading this section will be Jon Lukomnik, Keith Johnson and Randy Miller.

b. Investment oversight and review. *The contractor will perform an evaluation of the oversight and control of investments. The contractor will:*

- *Evaluate the appropriateness of Board and staff controls, procedures, and capabilities to regularly review and monitor the performance of the investments and the practices of investment managers, as well as ensuring compliance with policies;*
- *Evaluate SERS' process for measuring, evaluating, and controlling transaction costs, directed brokerage and commission recapture (if any), and compare the process to other funds as well as public or private third party industry surveys.*
- *Evaluate the process used to determine and measure investment performance, including how performance data is collected and verified and selection of appropriate benchmarks;*
- *Evaluate the basis and methodology for the compensation of external investment managers and advisors and payments to others, if any;*
- *Evaluate the written policies and procedures currently in place to monitor and guard against professional conflicts of interest; and*
- *Analyze how investment managers are selected, including the transparency in the decision-making process, due diligence provisions, whether specific criteria and procedures govern the selection process, whether they are actually observed in the selection process, and whether there is adequate documentation of selection process.*

For the investment oversight review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- Investment compliance reports
- Interviews with SERS investment staff, investment accounting staff, financial staff who calculate investment manager fees, compliance officer, external managers, and the investment consultants
- Trade execution analysis reports
- Most recent CEM investment benchmarking report
- Investment performance reports from the general consultant and custodial bank
- SERS staff investment reports to the Board
- External manager fee calculations and reports

- SERS conflict of interest policies and procedures for external managers
- External manager compliance reports
- SERS investment due diligence policies and procedures
- SERS manager files (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations)

The FAS team will rely upon existing investment performance reports, transaction execution analysis reports, and the CEM investment report to evaluate overall investment performance and level of manager and brokerage fees. We will evaluate policies and processes for developing the manager pipeline, selection, due diligence and monitoring of external managers based upon interviews with internal SERS staff, investment consultants, and external managers and transaction file documentation. Using the information described above, the FAS team will:

1. Assess SERS controls, procedures and capabilities for investment oversight, performance monitoring, and manager compliance
2. Assess SERS processes for monitoring and controlling transaction costs and compare to leading practices
3. Assess processes by which SERS selects performance benchmarks and monitors and measures performance
4. Evaluate external manager compensation and payment processes and compare to peers
5. Assess external manager conflict of interest policies and compliance procedures and compare to leading practices
6. Review SERS' investment manager due diligence and selection policies, practices and documentation and compare to leading practices

This section will be led by Jon Lukomnik, Keith Johnson, Megan Jackson and Ken Johnson.

c. Investment and fiduciary risk. The contractor will perform an evaluation of the awareness of risk and management of risk in investments. The contractor will:

- *Evaluate the processes by which the Board is aware of the risks associated with the asset allocation they have adopted; and*
- *Examine investment risk factors. Attention should be on the types, levels, and appropriateness of risks in the investment portfolios and overall funds as well as any internal controls in place at SERS to ensure compliance with the adopted standards, policies and procedure for managing investment and fiduciary risk. This examination should include a comparison to best practices.*

For the investment and fiduciary risk review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- Risk reports and analyses provided to the SERS Board over the past three years
- Investment compliance reports from the past three years
- Interviews with the SERS Board, investment staff and investment consultants, including asset class consultants
- FAS team member experience and the FAS investment operations knowledgebase

For the assessment of SERS investment and fiduciary risk, we will rely on interviews with Board members, investment consultants, and investment staff to assess the process through which investment risk has been discussed and evaluated when setting the asset allocation. We will also utilize the investment risk reports and analyses prepared over the past three years and compare the SERS risk policies and procedures to leading practices. Using the information described above, the FAS team will:

1. Evaluate how the Board assesses risk during the asset allocation process
2. Evaluate how SERS identifies and controls investment and fiduciary risk and compare to leading practices

This section will be led by Jon Lukomnik and Rick Funston.

***d. Custodian policy.** The contractor will evaluate SERS' relationship with its custodial bank, including the custodial bank's breadth of services, technological planning and capability to address SERS' needs, the bank's structure and level of fees, cash management and analytical services, and the ability of SERS to have oversight over custodial functions. The contractor will also review the custody model used by the Ohio Treasurer of State as custodian of financial assets for SERS and evaluate the oversight provided as compared against other public systems and best practices.*

For the custodian policy review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- The contract and service level agreement with SERS' custodial bank
- Most recent custodial bank RFP
- SERS custody fee data for the past three years
- Interviews with SERS staff, the custodial bank staff and Treasurer of State staff
- FAS project team experience and the FAS custody knowledgebase

For the assessment of the custodial bank services received by SERS, we will identify the services provided by the custodial bank and compare them to services typically provided by custodial banks to peer funds. We will compare the level of custody fees to those of peers based upon the FAS knowledgebase and the CEM investment report. FAS has examined custody models used in other states and has information to assess the model in use by SERS. Using the information described above, the FAS team will:

Evaluate the SERS relationship with its custodial bank and compare to peers

1. Compare the breadth and quality of services provided by the custodial bank to SERS with peer retirement systems
2. Evaluate the Ohio custody model and custodial bank oversight structure and compare to peer public retirement systems

This section will be led by Ken Johnson and Randy Miller.

D. LEGAL COMPLIANCE

The contractor will evaluate the adequacy of SERS' legal compliance with applicable state and federal law and regulations. The evaluation will include an analysis of:

- *Legal compliance and adherence to IRS regulations;*
- *Adequacy of internal and external counsel;*
- *Adequacy of ethics training, disclosure, and monitoring of compliance; and*
- *Board and staff compliance with legal requirements.*

For the legal compliance review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- SERS IRS filings over the past three years
- Most recent IRS Determination Letter
- Investment compliance checklists
- SERS transaction files (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations)
- List with description of external legal services obtained over the past three years
- Ethics training materials used by SERS
- SERS compliance reports for Board members and staff
- Interviews with SERS legal, compliance and investment staffs
- SERS project team experience and the FAS knowledgebase

For the internal and external legal services assessment, the FAS team will utilize interviews with internal counsel and the investment staff and peer information on level of legal staffing and external fees. We will assess the adequacy of legal services over the past three years. Using the information described above, the FAS team will:

1. Review communications with the IRS to identify potential compliance deficiencies
2. Review the process by which SERS monitors compliance with IRS requirements and

responds to compliance issues

3. Assess legal services in comparison to peers over the past three years
4. Review the ethics training and compliance programs, as well as compliance reporting processes, and compare them to leading practices
5. Review transaction compliance checklists for each asset class and review a sample of transactions for compliance with guidelines and legal requirements

This section will be led by Keith Johnson and Megan Jackson.

E. RISK MANAGEMENT AND CONTROLS

The contractor will evaluate the risk review and control procedures of SERS. The contractor will also evaluate the SERS management process by analyzing, as appropriate, the essential components of its internal control structure. These components include segregation of duties, availability of information, timeliness, accessibility, and accuracy of information, policy manuals, supervision and review, audits, and training and planning. A review of this task area should also encompass an assessment of whether the pension fund utilizes a holistic view of risk management.

The evaluation will include an analysis of:

- *The adequacy of financial controls and integrity of financial statements. This should include an analysis of the purchasing policy and adherence to that policy;*
- *The adequacy of the current accounting process;*
- *The appropriateness and utility of regular reports provided to the Board and management, and how that reporting compares to industry standards and best practices;*
- *Sufficiency of internal and external audit procedures; and*
- *Adequacy of record-keeping system.*

For the risk management and controls review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- SERS risk policies and procedures
- SERS control plans and reviews prepared by internal audit or third parties
- SERS procurement policy and procedures
- Description of accounting processes
- External audit reports for prior three years, including any management letters
- Operational risk reports

- Record-keeping policies, procedures and systems
- Interviews with SERS Executive Director, Deputy Executive Director, Director of Risk Management, Director of Internal Audit, Chief Financial Officer and staff, and the external auditor
- FAS project team experience and the FAS risk and reporting knowledgebase

For the assessment of SERS' risk management and controls, the team will evaluate the overall risk assessment approach (inputs, methodology, outputs), control procedures related to risk (relevancy), and internal control structure (design, effectiveness, sustainability through training and planning). We will also review and assess the purchasing policy, including vendor selection, evaluation and monitoring and compare to leading practices.

In conformance with the Institute of Internal Auditors' (IIA) *International Professional Practices Framework* and the U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards, commonly referred to as the Yellow Book, the FAS team will assess the sufficiency of internal audit procedures. We will review the accounting policies and procedures and the preparation and approval of financial statements and compare to leading practices at peers and also evaluate the processes used to oversee and conduct the external audit. Finally, we will review the SERS record-keeping policies, processes and systems and compare them to leading practices.

Using the information described above, the FAS team will:

1. Assess the SERS financial control structure and the adequacy of financial controls
2. Assess the process through which financial statements are created and their integrity
3. Assess SERS' purchasing policies and practices and procedures for compliance with those policies
4. Assess current SERS accounting processes
5. Evaluate the utility of standard reports to the Board and management and compare to leading practices
6. Assess internal audit capabilities and procedures
7. Assess the external auditor selection process and services provided by the external auditor
8. Evaluate SERS record-keeping system

This section will be led by Gina Eubanks, Todd McGowan and Rick Funston.

F. IT OPERATIONS

Evaluate the control, accuracy, and integrity of the SERS information technology system. This should include a review of SERS data integrity; security and confidentiality of its records system; contingency and continuity planning; and incident management system. Evaluate the overall risk level for SERS IT operations. The analysis will include an analysis of:

- *The quality of processes and controls for the organization and management of IT operations and governance; IT project and portfolio management; data management; application development and maintenance; local area network infrastructure; security; business continuity plan and disaster recovery; and*
- *Areas of high risk and SERS' mitigating controls for those defined high-risk areas. The analysis will compare the SERS' control structure with IT industry best practices.*

For the IT operations review, we will utilize the following sources of information to complete our assessment and comparison to leading, prevailing and lagging practices:

- SERS IT governance processes
- SERS IT strategy and delivery framework
- SERS IT, data and business continuity policies and procedures
- SERS IT planning documents (strategic, operational, network, data security, etc.)
- SERS applications systems portfolio and application map
- SERS technology platforms and service catalog
- SERS IT service management standards
- Description of SERS program management functions
- SERS IT service level standards and reports
- SERS cost of ownership of IT services and IT budget allocation
- SERS IT risk assessment
- Documentation for SERS IT projects, including the new enterprise web application currently being implemented
- SERS disaster recovery and business continuity plans
- IT and security incident and outage reports
- ITIL-based (Information Technology Infrastructure Library) survey questionnaire results supplied by SERS
- Interviews with the Chief Technology Officer and staff, the Executive Director, Deputy Executive Director, Director of Member Services
- FAS project team experience and the FAS IT knowledgebase

The FAS team will assess SERS' overall IT governance structure, policies and procedures and project management policies, procedures and capabilities. We will also evaluate the overall systems and data infrastructure. We will review and assess key IT risks and evaluate mitigation controls currently in place.

It was mentioned in the answers to RFP questions that the new SERS IT system currently being implemented may not be complete at the time of the start of this review. If that is indeed the case at the point in time the contract is finalized, based upon our experience, we recommend that our review of the IT system proceed. A review prior to launching a new system is typically more valuable than post-implementation and can help identify issues when they can more easily be rectified.

We will use a set of proprietary methods and practices which are industry-proven in the areas of IT, including best practice assessments and IT health-checks, security incorporating the SANS Critical Security (20) Controls Areas, and ITIL frameworks to assess IT systems management functions. All of these methodologies have been used successfully by our team in dozens of recent assessments and audits. The outcome of our reviews will be to identify opportunities to produce a positively changed environment.

Using the information described above, the FAS team will:

1. Assess SERS' overall IT governance structure, policies, procedures and control structure
2. Review the SERS technology infrastructure and applications portfolio along with the service catalog
3. Assess the organizational structure of SERS IT to support the ongoing performance of the fund operations
4. Assess SERS' project management policies, procedures and capabilities
5. Evaluate SERS' systems and data infrastructure
6. Evaluate SERS data integrity, confidentiality and security policies and practices and compare to industry leading practices
7. Review the cyber security capabilities of SERS' operations and systems, including the technology environment delivering applications and data
8. Review the SERS disaster recovery and continuity planning policies, plan and practices and compare to leading practices
9. Review major IT projects underway, including the status and related risks
10. Review SERS' incident reporting system
11. Assess risks associated with SERS IT operations
12. Prepare impact analyses of the recommended changes with suggestions for alternatives

This section will be led by Joe Szmazinski, Todd McGowan and Gina Eubanks.

As each of these six areas are being analyzed and preliminary assessment are being developed, the FAS project team will review preliminary results and have follow-up discussions with SERS staff throughout Phase 2 to ensure we have appropriately understood and interpreted the information provided to us. At the conclusion of Phase 2, the FAS project team will prepare a draft final report to be provided to ORSC and SERS for their review.

Phase 3: Final Report

We will conclude the fiduciary performance audit with a four- to five-week process to review and refine the final report with SERS and the ORSC to ensure accuracy of findings and practicality of recommendations. We have found this to be an important part of the process which greatly increases the likelihood of acceptance by the client and results in a high level of implementation. We would also expect to work with SERS leadership to identify appropriate priorities and timeframes to expect to implement the recommendations, as well as a high-level assessment of resources required. The contents of the final report are described below under *Deliverables*.

How FAS Proposes to Work with the ORSC and SERS

We believe it is important to have clear accountability for consultant results and defined protocols for client-consultant communications. As such, Rick Funston will have overall responsibility for the project and its results. On a day-to-day basis, Randy Miller will be the primary contact person and project manager.

We would expect to have a day-to-day liaison on a part-time basis at the ORSC and also expect SERS to appoint a project liaison to work with the FAS project manager part-time on a day-to-day basis. We would keep the ORSC liaison apprised on the progress of the review on a weekly basis and, if we encounter any issues in obtaining information or scheduling interviews, would request assistance.

The SERS project liaison would be responsible for obtaining and uploading documents in response to the FAS request, obtaining responses to the benchmarking profile questionnaire, and assisting in scheduling meetings and interviews. We utilize a secure, cloud-based collaboration tool called Huddle for SERS to upload documents to be available to the FAS project team. We can make this tool available to the ORSC liaison to view the project team's working documents, if desired.

We propose working initially with the ORSC and SERS project liaisons to develop clear communications protocols regarding interview requests and scheduling, document requests, follow-up discussions, and scheduling of meetings. This should help ensure effective and efficient use of ORSC and SERS executive and staff time and avoid redundant or confusing requests. We would also expect to have regular weekly status update conference calls with the SERS project liaison and the ORSC liaison to ensure effective ongoing communication throughout the project. We will provide a formal monthly progress report to the ORSC advising on overall project status and any potential issues which have been identified.

Prior to conducting the Opening Conference, the FAS team will prepare a document request (a preliminary draft is included in *Appendix B*, as previously mentioned) and allow several weeks for the

SERS staff to respond. We assume that most documents, including investment manager contracts and related due diligence materials, will be available electronically, can be uploaded to a secure tool. As mentioned earlier, this will include a detailed system profile questionnaire to provide information about SERS' structure, policies and procedures. We will also work with the SERS liaison to schedule interviews.

After a brief period to perform an initial review of the documents provided, we expect to have most of the FAS team on site for the Opening Conference and to:

1. Introduce ORSC and SERS executives and staff to the FAS team members;
2. Discuss project timing and ensure a clear understanding of project plans and protocols;
3. Conduct interviews; and
4. Follow up on further data collection requirements.

Subsequent to these activities, we would envision on-site work in Columbus to be on an as-needed basis for follow-up interviews or reviewing preliminary observations with SERS executives and staff. We would have all or part of the FAS team on-site to participate in the Closing Conference. Many of the follow-up discussions and interviews can be conducted as telephone conversations. Our experience is that this is an efficient and cost-effective working style for this type of review.

For the Closing Conference, we will present a PowerPoint summary document of our findings and recommendations. The full final report will be provided in advance of the Closing Conference.

Deliverables

As requested, FAS will provide monthly status updates and weekly phone calls to the ORSC and propose that the progress report submission include a conference call, or face-to-face meeting if appropriate, to discuss status and provide an opportunity for both the ORSC and FAS teams to ask questions and discuss issues.

The final report will include: a description of the work performed; an executive summary; findings and recommendations, including priorities; and specific and concrete proposals to achieve any improvements recommended in the report. The recommendations and proposals will be prioritized and provide the potential costs or benefits associated with implementation. The key findings, recommendations, and proposals will be organized in a manner that clearly identifies to whom they are primarily directed (e.g., the Legislature, SERS Board, and ORSC). This is consistent with our normal approach for this type of review, and we have found that it results in a very high level of adoption of our recommendations.

Timeline

We believe this fiduciary performance audit can be completed within four to five months. Our GANTT chart style workplan, included as *Appendix D*, indicates the expected duration necessary for each task area.

The FAS team will be prepared to begin the engagement after we are selected within two weeks of finalizing the contract.

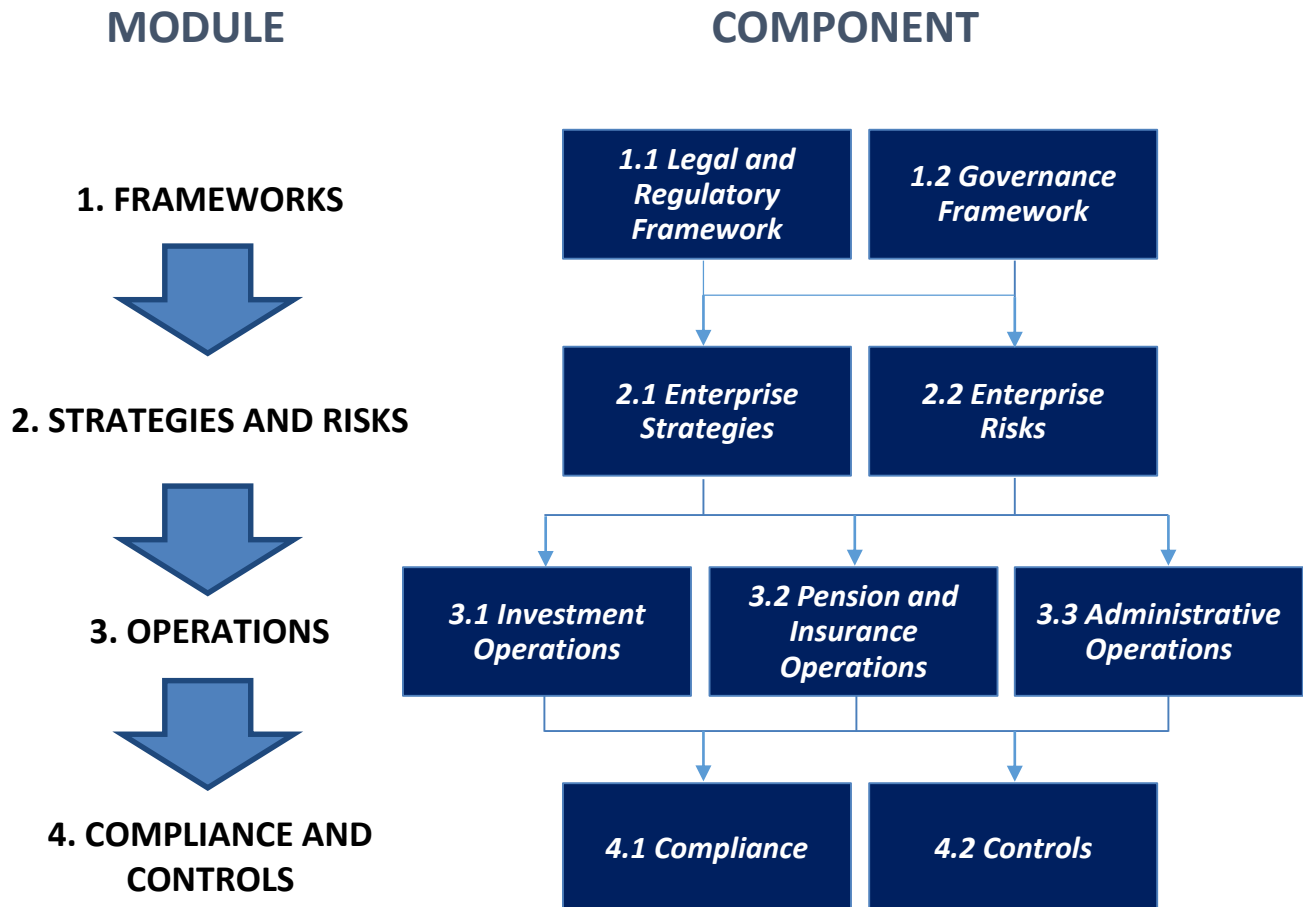
VI. ADDITIONAL INFORMATION

Each proposal shall include any 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 and/or substantiate the proposal. Any material included here should be specifically referenced elsewhere in the proposal.

The FAS Fiduciary Audit Methodology

Funston Advisory Services LLC (FAS) has developed a fiduciary performance review methodology which evaluates a retirement system’s governance, strategy, risk and compliance policies and practices. The methodology, indicated in the graphic below, is comprehensive and adaptable to each specific assignment (see appendix for topics included in each major area). Our approach to fiduciary reviews is “One size fits one,” but it is important to utilize a consistent methodology to identify leading, prevailing, and lagging policies and practices.

The FAS Fiduciary Review Methodology



VII. GLOSSARY

Each proposal shall 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.

ALS – Asset-liability study

BAM – New York City Bureau of Asset Management

CalPERS – California State Employees’ Retirement System

CCSA – Certification in Control Self-Assessment

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CIA – Certified Internal Auditor

CIO – Chief Investment Officer

CISA – Certified Information Systems Auditor

COO – Chief Operating Officer

COSO – Committee of Sponsoring Organizations of the Treadway Commission

CRF – New York State Common Retirement Fund

CRMA – Certification in Risk Management Assurance

FAS – Funston Advisory Services LLC

GAO – Government Accountability Office

IAA – Institute of Internal Auditors

IRRCi – Investor Responsibility Research Center Institute

IT – Information Technology

ICGN – International Corporate Governance Network

ITIL – Information Technology Infrastructure Library

LACERA – Los Angeles County Employees Retirement Association

NAPPA – National Association of Public Pension Attorneys

NASRA – National Association of Public Retirement Administrators

OIC – Oregon Investment Council

OPERF – Oregon Public Employees’ Retirement Fund

OPERS – Ohio Public Employees Retirement System

ORSC – Ohio Retirement Study Council

OST – Oregon Office of the State Treasurer

P2F2 – Public Pension Financial Forum

PCAOB – Public Company Accounting Oversight Board

PEBA – South Carolina Public Employee Benefit Authority

RSIC – South Carolina Retirement System Investment Commission

SERS – School Employees Retirement System

STRS – State Teachers Retirement System

SIG – South Carolina State Inspector General

SIP – Statement of Investment Policy

SWIB – State of Wisconsin Investment Board

VIII. COST INFORMATION

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

	A. Board Governance and Administration	B. Organizational Structure and Staffing	C. Investment Policy and Oversight	D. Legal Compliance	E. Risk Management and Controls	F. IT Operations	Project Oversight and Management	Total Hours
Gina Eubanks					94	66		160
Rick Funston			32		32		48	112
Keith Johnson	40		26	50				116
Ken Johnson	60	48	60					168
Megan Jackson	40		26	50				116
Jon Lukomnik			168					168
Todd McGowan					78	50		128
Randy Miller	54	44	36				82	216
Joe Szmazdzinski					16	144		144
Total	194	92	348	100	220	260	130	1328

	Hours	Rate	Total
Professional fees	1328	\$450	\$597,600
Travel and lodging			\$22,400
Materials and other costs			\$4,000
Total			\$624,000

IX. Appendix A – FAS Knowledgebase

FAS has completed five leading practices benchmarking studies over the past four years. These studies were all completed by FAS team members and include development of surveys and collection of data from selected pension fund peer groups, data validation and analysis, preparation of final reports, and follow-up discussions and webinars with participants.

- ***Public Pension Fund Governance Benchmarking Survey and Leading Practices, 2011***

The benchmarking study was very useful in helping the CalPERS Board understand governance leading practices and to move forward to implement substantive changes. Sixteen major pension funds in the U.S., Netherlands, South Africa and the U.K participated.

- ***Public Fund Investment Management Governance Survey, 2012***

This study was completed at the request of the Office of the Oregon State Treasurer (OST). It included a review of fund governance with seven peer funds utilizing a detailed analysis of 66 authorities under 9 broad “Powers Reserved” categories. The “treasurer model” and “investment board model” governance structures were compared and contrasted.

- ***Public Pension Fund Fiduciary and Governance Leading Practices Survey, 2012***

Completed at the request of the New York State Comptroller’s Office, this study evaluated and identified leading and prevailing practices in eleven different areas. The study included 15 public pensions funds with AUM of \$50 billion or greater. The results were also used to highlight differences found among sole fiduciary, investment board, and integrated board governance models.

- ***Public Pension Fund Governance Leading Practices Survey, 2013***

At the request of the School Employees Retirement System of Ohio, FAS conducted a targeted benchmarking process covering five topical areas with twelve peer public pension funds with AUM ranging from \$7 billion to \$14 billion.

- ***Public Pension Investment Board Benchmarking Survey, 2014***

As part of our fiduciary performance review of the South Carolina Retirement System Investment Commission, FAS conducted a benchmarking survey of a peer group of seven U.S. state public pension investment boards with AUM of \$10 billion or greater. Topics included various board policies and practices, decision-making processes, the custodian relationship, and personnel and sourcing strategies.

- ***Retirement Administration Agency Peer Benchmarking Results, 2014***

As part of our fiduciary performance review of the South Carolina Public Employee Benefit Authority (PEBA), FAS conducted a benchmarking survey of public retirement systems which administer retirement benefits and are separate from the agencies which manage fund investments. Among the seven agencies which participated, five also oversee defined contribution plans, five administer

health insurance, and three oversee other insurance programs. Topics benchmarked included board policies and practices, legal authorities, organization structure, and risk management.

The FAS Public Pension Fund Leading Practices database includes information on the following topical areas:

- Fiduciary profile (responsibility (single or board), board member terms, elected or appointed, requirements, types of committees, time commitment)
- Key decision authorities and fiduciary alignment (66 specific authorities):
 - Governance
 - Strategy and resourcing
 - Oversight
- Ability to establish independent investment holding companies
- Open meeting requirements (existence and policy exceptions)
- Board practices (risk management, reporting, outside advice)
- Board self-assessment (approach, process, administration, feedback)
- Board self-development (expertise, training plans, delivery)
- Policies governing board conduct (policies, compliance, discipline)
- Fund policies and frequency of review and updating
- Executive staff profile (executive positions, board reporting, succession planning)
- Executive management hiring and compensation decision responsibilities
- Investment operations profile (legal list restrictions (allowable investments, allocation limits, exposure limits), internally vs. externally managed funds, internal and external investment costs, internal investment management resources, decision-making processes)
- Training type and frequency
 - Ethics
 - Asset classes
- Legal operations
 - Staffing level
 - External counsel (spending, fee structure)
 - Use of outside fiduciary counsel
- Operational transparency and disclosures
- Investment operations management
 - Cost management strategies
 - Cost monitoring
- Use of external managers
 - Hiring process
 - Number and size of mandates and trends
- Use of consultants
 - Type and number
 - Spending by type
 - Value
- Due diligence
 - Frequency
 - Participation
- Contracting and use of custodial services

- Securities lending trends
- Foreign exchange oversight
- Internal and external audit approval responsibility
- Investment accounting operations
 - Segregation of duties
 - Staff certifications
 - Software and documentation flow
 - Asset accounting approvals

Our specific benchmarking study with U.S. state retirement systems which are governed by a fiduciary Board of Trustees and where the defined benefit pension funds are invested and managed by a separate investment board or sole fiduciary includes:

- Board of trustees and policies
 - Composition
 - Qualifications
 - Terms
 - Meeting frequency and duration
 - Time spent on agency business
 - Defined policies and source
 - Ethics/standards of conduct compliance
 - Board discipline
 - Engagement of outside legal counsel
 - Trustee indemnification
- Board self-assessment
 - Process
 - Frequency
 - Use of upward and/or peer-to-peer assessments
 - Feedback process
- Board education
 - Mandated topics
 - Training plans
 - New member orientation
 - External training
- Retirement system authorities
 - Budget approvals
 - Staffing authorities
 - Compensation
 - Rate of return assumption
- Co-fiduciary responsibilities
 - Fund valuations
 - Selection of external auditor
 - Custodian and role of State Treasurer
- Organization
 - Executive positions and reporting relationships

- Employer training responsibilities
- Stakeholder relations and communications
 - Communications plans
 - Communications responsibilities
- Risk management
 - Risk programs
 - Risk in decision-making processes
- Strategic planning
 - Planning process
 - Responsibilities
 - Frequency of updates
- Business continuity plans
- Staff training and education
 - Types of functional training
 - New employee orientation
- Use of outside counsel
 - Type of issues
 - Annual spending

X. Appendix B – Preliminary Data Request

A. *Board Governance and Administration*

1. Ohio statutes governing SERS
2. SERS governance policies, including charters, delegations, position descriptions, ethics and standards of behavior policies and communications policy
3. SERS Board education and training program and materials
4. Most recent three SERS annual operating budgets and financial and operating reports
5. SERS staff development and succession planning documentation
6. Most recent CEM pension administration benchmarking report for SERS

B. *Organization Structure and Staffing*

7. SERS human resources policies and procedures
8. SERS staffing reports, including hiring, termination, vacancy and retirement eligibility
9. SERS position descriptions
10. SERS employee evaluation policies and procedures
11. Internal SERS employee satisfaction survey results
12. SERS member service reports
13. Most recent CEM pension administration benchmarking report for SERS (common with A.)
14. Most recent independent compensation study conducted for SERS
15. SERS employee continuing education and training program materials

C. *Investment Policy and Oversight*

16. SERS current Statement of Investment Policy (SIP) and most recent prior two versions
17. FAS investment policy and operations knowledgebase
18. SERS annual investment reports for past three years
19. SERS most recent asset-liability study
20. SERS most recent five-year experience review
21. SERS rebalancing reports from past three years
22. SERS Board minutes from past three years
23. Investment compliance reports
24. Trade execution analysis reports

25. Most recent CEM investment benchmarking report
26. Investment performance reports from the general consultant and custodial bank
27. SERS staff investment reports to the Board
28. External manager fee calculations and reports
29. SERS conflict of interest policies and procedures for external managers
30. External manager compliance reports
31. SERS investment due diligence policies and procedures
32. SERS transaction files (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations)
33. Risk reports and analyses provided to the SERS Board over the past three years
34. Investment compliance reports from the past three years
35. The contract and service level agreement with SERS' custodial bank
36. Most recent custodial bank RFP
37. SERS custody fee data for the past three years

D. Legal Compliance

38. SERS IRS communications over the past three years
39. Most recent IRS Determination Letter
40. Investment compliance checklists
41. SERS transaction files (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations) (common with C)
42. List with description of external legal services obtained over the past three years
43. Ethics training materials used by SERS
44. SERS compliance reports for Board members and staff

E. Risk Management and Controls

45. SERS risk policies and procedures
46. SERS control plans and reviews prepared by internal audit or third parties
47. SERS procurement policy and procedures
48. Description of accounting processes
49. External audit reports for prior three years, including any management letters
50. Operational risk reports

51. Record-keeping policies, procedures and systems

F. IT Operations

52. SERS IT governance processes

53. SERS IT strategy and delivery framework

54. SERS IT, data and business continuity policies and procedures

55. SERS IT planning documents (strategic, operational, network, data security, etc.)

56. SERS applications systems portfolio and application map

57. SERS technology platforms and service catalog

58. SERS IT service management standards

59. Description of SERS program management functions

60. SERS IT service level standards and reports

61. SERS cost of ownership of IT services and IT budget allocation

62. SERS IT risk assessment

63. Documentation for SERS IT projects, including the new enterprise web application currently being implemented

64. SERS disaster recovery and business continuity plans

65. IT and security incident and outage reports

66. ITIL-based (Information Technology Infrastructure Library) survey questionnaire results supplied by SERS

XI. Appendix C – Preliminary Interview List

1. Each SERS Board member
2. SERS executive staff
 - a. Executive Director
 - b. Deputy Executive Director
 - c. Chief Investment Officer
 - d. Asset class managers
 - e. Investment risk manager
 - f. General Counsel
 - g. Chief Compliance Officer
 - h. Director of Risk Management
 - i. Director of Internal Audit
 - j. Chief Financial Officer
 - k. Investment accounting staff
 - l. Financial staff who calculate investment manager fees
 - m. Chief Technology Officer and staff
 - n. Director of Member Services
 - o. Manager of Human Resources
3. General investment consultant
4. Asset class consultants
5. Investment managers (at least ten investment managers from a variety of asset classes, focusing on the most recently hired and those with the largest allocations)
6. SERS actuary
7. SERS custodial bank staff
8. Treasurer of State staff (those who interact with SERS regarding custodial bank matters)
9. SERS external auditor

XII. Appendix D – Workplan and Timeline

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Phase 1: Data Gathering																				
1. Finalize the workplan	█																			
2. Collect and review documents	█	█	█																	
3. SERS complete profile survey	█	█	█																	
4. Prepare for entrance meeting and interviews			█	█																
5. Conduct entrance meeting				█																
6. Conduct interviews with SERS Board and staff				█																
7. Conduct external service provider interviews					█	█														
8. Review SERS implementation progress on prior fiduciary review recommendations					█	█														
Phase 2: Assessment																				
A. Board Governance and Administration						█	█	█	█	█	█	█	█	█						
1. Assess the overall SERS governance structure, Board composition, and lines of reporting and compare with leading practices at peer state retirement systems in the U.S., with particular emphasis on investment governance																				
2. Review the policies and role of the Board vis-à-vis SERS staff, advisors, and external managers																				
3. Evaluate oversight and monitoring activities																				
4. Review Board and staff processes for compliance with applicable laws, administrative rules and policies																				
5. Review conflict of interest policies and procedures and compare with leading practices																				

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
6. Compare SERS Board authorities and performance with leading, prevailing and lagging practices at peer funds and identify if there are areas where the Board is unduly limited by regulations from fulfilling its fiduciary duties																				
7. Assess SERS' budgeting and monitoring processes, its administrative costs, and its ongoing Board education program and costs and how they compare to peer retirement systems																				
8. Compare SERS' budgeting and expense monitoring processes with leading practices																				
9. Compare SERS' Board continuing education program with leading and prevailing practices at peer retirement systems																				
10. Review SERS' stakeholder communications policies and plans and compare to leading practices																				
B. Organizational Structure and Staffing																				
1. Assess the organization structure, staffing and capabilities of SERS as compared to peer retirement systems																				
2. Review human resources policies and practices and compare to leading practices																				
3. Assess staff qualifications and hiring and evaluation processes																				
4. Evaluate SERS compensation policies and structure																				
5. Assess SERS processes for monitoring, measuring and improving member satisfaction																				

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
6. Review SERS staff training and continuing education policies and program and compare to peer retirement systems																				
C. Investment Policy and Oversight																				
a. Investment policy																				
1. Assess how the SIP is developed and updated and compare to leading and prevailing practices																				
2. Review the content of the SIP and compare to peer leading practices																				
3. Assess consistency between the SIP and the asset allocation, the asset/liability study, and the most recent five-year experience study																				
4. Review mechanisms and decision-making processes for periodically reviewing and rebalancing the asset allocation																				
5. Evaluate SERS policies and practices for documentation of investment decisions																				
6. Assess SERS compliance with documented investment policies and procedures and identify any issues																				
7. Review SERS Board and staff policies and processes for periodic review and updating or investment policies, guidelines and procedures																				
b. Investment oversight and review																				
1. Assess SERS controls, procedures and capabilities for investment oversight, performance monitoring, and manager compliance																				

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
2. Assess SERS processes for monitoring and controlling transaction costs and compare to leading practices																				
3. Assess processes by which SERS selects performance benchmarks and monitors and measures performance																				
4. Evaluate external manager compensation and payment processes and compare to peers																				
5. Assess external manager conflict of interest policies and compliance procedures and compare to leading practices																				
6. Review SERS' investment manager due diligence and selection policies, practices and documentation and compare to leading practices																				
c. Investment and fiduciary risk																				
1. Evaluate how the Board assesses risk during the asset allocation process																				
2. Evaluate how SERS identifies and controls investment and fiduciary risk and compare to leading practices																				
d. Custodian policy																				
1. Compare the breadth and quality of services provided by the custodial bank to SERS with peer retirement systems																				
2. Evaluate the Ohio custody model and custodial bank oversight structure and compare to peer public retirement systems																				

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
D. Legal Compliance																				
1. Review communications with the IRS to identify any potential compliance deficiencies																				
2. Review the process by which SERS monitors compliance with IRS requirements and responds to compliance issues																				
3. Assess legal services in comparison to peers over the past three years																				
4. Review the ethics training and compliance programs, as well as compliance reporting processes, and compare them to leading practices																				
5. Review transaction compliance checklists for each asset class and review a sample of transactions for compliance with guidelines and legal requirements																				
E. Risk Management and Controls																				
1. Assess the SERS financial control structure and the adequacy of financial controls																				
2. Assess the process through which financial statements are created and their integrity																				
3. Assess SERS' purchasing policies and practices and procedures for compliance with those policies																				
4. Assess SERS accounting processes																				
5. Evaluate the utility of standard reports to the Board and management and compare to leading practices																				
6. Assess internal audit capabilities and procedures																				

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
7. Assess the external auditor selection process and services provided by the external auditor																				
8. Assess SERS record-keeping system																				
F. IT Operations																				
1. Assess SERS' overall IT governance structure, policies, procedures and control structure																				
2. Review the SERS technology infrastructure and applications portfolio along with the service catalog																				
3. Assess the organizational structure of SERS IT to support the ongoing performance of the fund operations																				
4. Assess SERS' project management policies, procedures and capabilities																				
5. Evaluate SERS' systems and data infrastructure																				
6. Evaluate SERS data integrity, confidentiality and security policies and practices and compare to industry leading practices																				
7. Review the cyber security capabilities of SERS' operations and systems, including the technology environment delivering applications and data																				
8. Review the SERS disaster recovery and continuity planning policies, plan and practices and compare to leading practices																				
9. Review major IT projects underway, including the status and related risks																				
10. Review SERS' incident reporting system																				
11. Assess risks associated with SERS IT operations																				

FAS Activities	Week																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
12. Prepare impact analyses of the recommended changes with suggestions for alternatives																				
Phase 3: Final Report																				
1. Submit complete final draft report for ORSC and SERS review																				
2. Obtain feedback from ORSC and SERS and revise report, as appropriate																				
3. Submit second draft final report to ORSC and SERS																				
4. Submit final report to ORSC and SERS and conduct Closing Conference																				