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The Hackett Group Fiduciary Performance Audit of the School Employees Retirement System of Ohio

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3.1 PROPOSAL SUMMARY

The Hackett Group (THG) is pleased to submit its proposal in response to ORSC's RFP to perform a fiduciary performance audit of the school Employees Retirement System of Ohio. The firm and its partners understand the requirements as outlined in the RFP and have assembled the right team to perform this important fiduciary review.

The Hackett Group is a boutique consulting practice based in New Orleans. Founded by Toni Hackett Antrum in 2011, THG provides customized consulting services to public sector clients, retirement plan sponsors, fiduciaries and private sector clients. An independent institutional investment consulting firm and a Registered Investment Advisor (RIA) with the Securities and Exchange Commission, The Hackett Group is 100% Woman and Minority owned and possesses DBE certification by the City of New Orleans and Federally through the Department of Transportation. The firm is a certified State and Local Disadvantaged Business ("SLDBE") as well as a Woman-owned Business Enterprise ("WBE"). Pioneers in the area of trustee and staff education and training, we comprehend the need for fiduciary and operational controls within a diversified System comprised of multiple portfolios of both simple and complex investment asset classes.

The Hackett Group is organized as a sole proprietorship 100% owned by Ms. Antrum. The firm maintains no affiliated or subsidiary company relationships, and currently participates in no joint ventures. THG maintains Errors and Omissions/Professional Liability insurance with minimum limits of \$1,000,000 per occurrence, Employee Theft Insurance with minimum limits of \$1,000,000 per occurrence and Commercial General Liability Insurance with limits sufficient to cover losses of \$1,000,000 per occurrence and \$3,000,000 aggregate.

Neither the firm nor its principal faces any material litigation. Since THG's inception, no client or former client has brought litigation against the firm. No professional relationships involving the ORSC, the five Ohio public retirement systems, the State of Ohio or its political subdivisions exist. The Hackett Group foresees no ethical or professional conflicts if hired to perform the review.

Toni Hackett Antrum, the President of The Hackett Group, will act as the primary contact for this engagement.

The Hackett Group recognizes ORSC's need for such a comprehensive review and will apply its subject matter expertise in the area of pension system Audits and Investments to complete this assignment. We understand that the goal of this audit is to identify areas of weaknesses and also strengths in SERS, compare SERS operation with best practices of other public pension plans, and make recommendations for improvement.

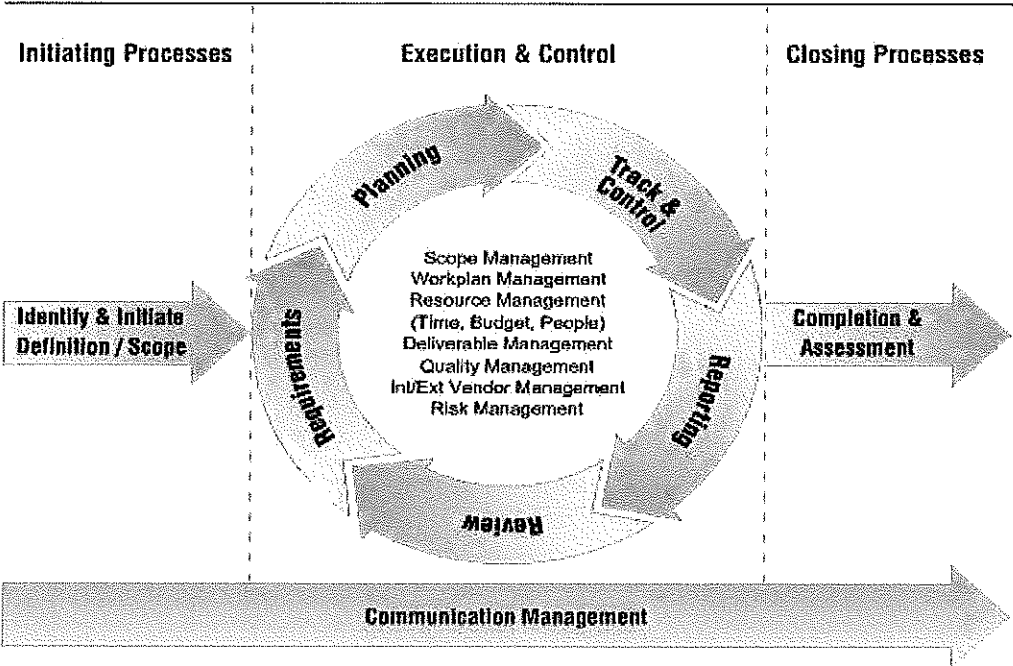
For this engagement, The Hackett Group will rely upon a combination of factors, including acknowledged industry standards, secondary research from reputable industry sources, empirical facts gained from performing similar reviews of other public funds, independent research, and the extensive experience of The Hackett Group team of Senior Consultants. This team possesses

over 100 years combined of pension management, pension consulting and institutional investment experience.

Specifically for this assignment, the audit scope performed by THG will include an assessment of the adequacy of operational processes, organizational structure and governance, investment policies and oversight, risk management, compliance with applicable statutes, and IT operations. The overall objective of the audit is to provide sufficient basis for concluding whether, or not, internal controls over the operational, governance, investment and legal processes of the System provide reasonable assurances that:

- The Governance, administration and organizational structure allow for effective management of the System and follow Best Practices;
- The System possesses robust, up-to-date investment guidelines to which it adheres;
- The System has properly identified and addressed both financial and operational risks; and,
- The operations and IT processes in place allow for the proper monitoring, oversight, and valuation of investments.

The end product of this fiduciary audit will ensure that the processes for monitoring and oversight of the System's operation include sufficient controls to safeguard the System's assets. The processes associated with SERS include those performed by the System, its external money managers and contractors, and custodial institutions. To achieve this goal, THG will evaluate the processes for each area identified in the audit scope through the following steps:



- 1) Identify and assess the associated risks;
- 2) Identify significant controls and test for the consistency of their application;
- 3) Identify and assess control weaknesses;
- 4) Identify missing controls;
- 5) Assess the effectiveness of controls through substantive testing;
- 6) Make recommendations for improvement; and,
- 7) Report the results.

3.2 CAPABILITIES AND EXPERIENCE

The principals of the firm possess combined experience of over 100 years in the investment arena, focused primarily on public pension funds, including working with jointly trustee boards of directors. Pioneers in the area of trustee and staff education and training, we comprehend the need for operational controls within a portfolio of complex investment asset classes. We have provided education and seminars covering all aspects of the Fiduciary Responsibilities of Trustees and Staff of pension funds and municipal employees. The Hackett Group provides customized investment counsel and consulting services to public funds, retirement plan sponsors, fiduciaries, private sector clients, and political subdivisions. The Hackett Group is the successor firm to Washington Hackett, Smith & Company (WHS)--the groundbreaking organization founded over 25 years ago as the nation's first minority-owned pension consulting firm. In addition to pension and investment consulting, the firm provides investment banking, real estate analysis, and public policy consulting focusing on governmental fiscal and operational matters.

The Hackett Group utilizes an “expert of experts” model - employing experienced, in-house senior consultants with direct and efficient access to the resources of multiple leading firms. When retained, the firm assembles a highly customized superior team, thereby offering an incomparable level of service without the client having to hire multiple, large consulting firms. This model allows the firm to address complex, multi-layered subjects, requiring a multi-disciplinary approach and subject matter expertise, which includes investment management, capital market practices, fiduciary and board practices, actuarial science, employee benefits plan issues, real estate finance and technical expertise, and traditional public finance.

The Hackett Group consulting services consist of:

- Asset allocation analysis and liability analysis (investment pools);
- Investment performance measurement;
- Investment Policy Development;
- Alternative investment review;
- Manager search and selection;
- Education and training on all aspect of Fiduciary Responsibilities, governance, Board ethics and procedures;
- Defined Contribution plan design;
- Actuarial studies, defined benefit plan redesign, customized research;
- Comprehensive pension review – both investment and operational;
- Public policy analysis;

- Financial Advisory Services including management of bond proceeds;
- Process review and planning; and,
- Real estate consulting and analysis.

The Hackett Group and its principals have focused almost exclusively on public clients, providing pension and investment services to the City of Atlanta Municipal Pension Fund, Louisiana School Employees Retirement System, Rivera Beach Florida Pension Fund, City of New Orleans, Illinois University Retirement System, the Legislative Auditor of the State of Utah, and the Maryland State Retirement System, among others.

The Hackett Group will be supported in this engagement by HGM Management and Technologies, Inc., an established consulting practice based in of Washington, D.C. headed by Horace McCormack, Ph.D., an expert in process improvement and performance management within governmental units, by Luther C. Speight & Company, a full- service Certified Public Accounting and Consulting firm based in New Orleans, LA, and by the law firm of Aaron and Gianna, PLC.

HGM conducted benchmark research to support a variety of planning, system implementation, and organizational projects for clients such as Philadelphia, New York City, Washington, D.C., PennDot, City of Richmond, City of Atlanta, City of Tampa, City of Baltimore and most recently for the Department of Homeland Security and the Department of Transportation.

HGM has significant experience conducting organizational assessments and benchmark research of business sector trends emerging in productions, processes, and information issues/technologies including systems integration, database design and management and workflow analyses and management.

Speight & Company has performed the annual audit of the City of New Orleans Municipal Employees Retirement System (NOMERS) since 1995. During that period, his firm has experienced changes in Board leadership and Management, while navigating the ever-evolving pension regulatory environment.

The firm conducted its initial pension plan audits in 1995. In addition to NOMERS, clients included the Firefighters and Police Pension plans. The firm also performed audits of major commercial 401k plans as well as nonprofit organizations.

The management and staff of the firm have remained current on the evolving governmental pension regulatory environment, particularly the current changes promulgated by the Government Accounting Standards Board (GASB) #67 and #68, successfully adopting the reporting standards of GASB #67 during the 2014 NOMERS audit engagement. To meet the GASB #67 requirements, Speight & Company closely coordinated with the Plan's Actuary,

Investment Advisor, and Management to insure the firm addressed and properly reported all of the required standards.

Mr. Speight is one of the most experienced CPAs in New Orleans related to the auditing of governmental retirement plans. He gained this experience over the 20 year period that he has served as engagement audit partner for NOMERS. Additionally, Speight & Company also performed audits and provided consulting services for major 401K plans for commercial entities (Hammerman & Gainer International) and for nonprofit entities (Total Community Action).

Aaron & Gianna, PLC combines the technical facilities of larger firms with the personal service of a smaller firm. The firm's attorneys have overseen the gamut of real estate, commercial, financial and corporate transactions and regularly serve as legal counsel for government agencies and non-profit organizations, financial institutions, real estate developers, and health care providers.

The Hackett Group possesses demonstrated ability valuing traditional asset classes in both equity and fixed income, as well as alternative asset classes, including hedge funds, private equity and real estate. The firm completely understands the Fund of Fund structure. These and other investment structures like it require more extensive review because of their multi-layered structure, including the Fund-of-Funds procedures and the underlying managers' operational procedures and controls. During this review, THG determines how performance is calculated, presented and rolled up into a composite number.

Toni Hackett Antrum and Chris Tobe, CFA, CAIA will co-lead this engagement. Mr. Tobe has extensive experience working with and serving on a jointly trustee public pension board. He also has extensive experience in valuation not only for plans directly but in litigation as well.

In 2009, the Maryland MSRP (\$4 billion DC plan) and the Texas ERS (\$3 billion DC plan) engaged Mr. Tobe to value plan assets where he examined the valuation of fixed income securities, the methodology for valuing securities, and portfolio characteristics. In 2011, Mr. Tobe completed legal expert witness testimony for a major insurance company on litigation involving valuation issues centered on a hedge fund. As well in 2011, he completed a major national arbitration in which his expert witness testimony directly impacted the valuation of Private Debt, a key issue in the arbitration. From 2008-2012, as a Trustee and member of the Investment Committee for the \$13 billion Kentucky Retirement Systems, Chris reviewed a number of investment valuation issues that he explored in his book, *Kentucky Fried Pensions*. In 2015 he was engaged by the Utah Legislative Auditor and completed a report on the performance of the \$30 billion Utah Retirement Systems. Currently in 2015 he serves as the investment expert in several legal cases involving valuations in Kentucky pensions. *See Excerpt #2, Utah Performance Audit, Page 29*

A recent project The Hackett Group completed that illustrates the flexibility and the multidisciplinary expertise of the firm was an operational and investment analysis of the New Orleans Municipal Retirement System (\$380 Million) and an operational and investment analysis of the New Orleans Firefighters' Pension Fund (\$280 Million). *See Excerpt #1, Page 26*
Recommendations

In 2012, the firm was engaged to review and provide in-depth compressive investment analysis, performance review and recommendations for improvement of the City's pension funds. This project included a review of the actuarial assumptions of the pension plans and recommendation of possible benefits modifications, as well as assessing the impact of these modifications on funding ratios and contributions. The Hackett Group reviewed the investment portfolios of each fund, including a total portfolio review of well over 40 Equity, Fixed Income and Alternative Investments separate accounts. The Hackett Group also evaluated the funds' investment policy statements and governance processes. With this valuable analysis, the City made the appropriate policy and legislative decisions regarding the New Orleans Municipal Employees Retirement System and the New Orleans Firefighters' Pension Fund.

For the legal compliance working review, The Hackett Group will be assisted by a firm that is noted for defending a national pension fund in ERISA litigation brought in federal court by plan participants who had previously embezzled million of dollars from the fund. The attorneys at Aaron and Gianna have served as advisors to a wide range of clients on matters involving governmental and judicial ethics, as well as the development of internal codes of conduct. In addition the attorneys at the firm provide solutions to private and public employers across the spectrum of employment law and employment benefit issues, pension and human services plan design and administration, as well as regulatory compliance and human resource issues.

An important component of the Legal review includes the adequacy of ethics training, disclosure, and monitoring of compliance for SERS. The Hackett Group has been certified as ethics trainers and is currently conducting ethics training sessions for city of New Orleans departments, agencies and boards.

Our review of internal trading capabilities includes analysis of major sell-side firms. The Senior Consultants of THG have held the positions of principals and traders at broker-dealers and are intimately familiar with the trading process. In addition we have worked with both Abel Noser and Zeno, two transaction cost analysis and reporting companies.

Our curriculum in our educational offerings includes securities lending, proxy voting, and shareholder litigation. This gives THG unique insight into establishing proper procedures and best practice in each of these areas.

Experts in the tools, techniques and software used by leading consultants, we are able to review our clients' processes and programs. The project completed with New Orleans Firefighters required us to review their manager selection process, benchmarks, and other parameters. The

review discovered inconsistencies with the investment policy statement as well as mischaracterizations of various managers.

The Hackett Group Advantage

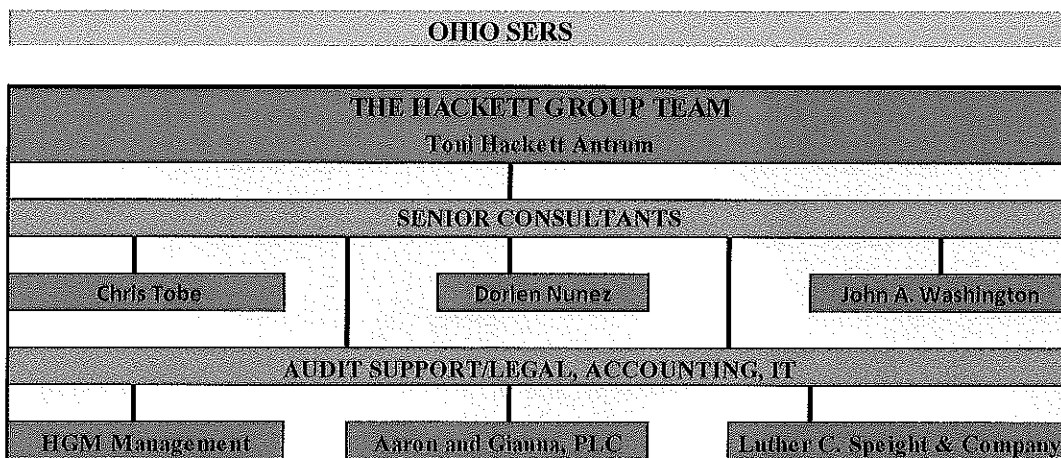
We believe that the advantage of hiring The Hackett Group lies in our nimbleness, our ability to analyze complex systems, and, primarily, our core understanding of pension funds, their systems and investments. As well, clients gain the benefit of having only senior consultants working on all phases of a project. These advantages allow for efficient work flow by focusing on only necessary issues and by collaborating across disciplines with trusted professionals.

3.3 STAFF QUALIFICATIONS

The Hackett Group team that would work on Ohio SERS was recently hired by the Maryland Retirement Agency to perform a similar fiduciary review of 36 managers, both traditional and alternative, with total assets of \$4.4 billion. Maryland hired THG precisely for the firm's ability to apply the rigorous process found in a financial statement audit to a fiduciary and performance audit of investments, policies and processes of defined contribution and benefit plans.

The Senior Consultants each have more than 25 years advising pension funds and public entities. We have performed asset allocation studies, asset liability analysis, manager selection, peer group evaluation, performance measurement, education, and training for some of the largest state and municipal funds in the country. Clients have included various funds such as City of New Orleans Firefighters, Oklahoma Investment Commission, St. Louis Sewer District, St. Louis Public, Cook County Chicago, Illinois State University Retirement System, CALPERS, City of Denver, and the City of Atlanta.

The team is composed of senior consultants with extensive experience in specific areas of the investment and pension consulting arena. We, therefore, maintain a non hierarchical organization. The firm promotes a collaborative culture, with information flowing across and between team members. Toni Hackett Antrum, the founder of the firm, serves as the managing principal and a senior consultant. The senior consulting team is supported by HGM Management and Technologies, Inc., Luther C. Speight & Company, and Aaron & Gianna, PLC in the areas of legal structure and compliance, accounting, and human resources and information technology. As described earlier, The Hackett Group calls upon a cadre of trusted senior professionals when additional expertise is required for a project in areas such as law, human resources and accounting.



Toni Hackett Antrum, President, Senior Consultant

Toni has enjoyed a long and distinguished career in the public fund investment industry. She provided consulting services to leading public retirement programs beginning in 1988 under the banner of Washington Hackett, Smith & Company (WHS) -- the first minority-owned pension consulting firm in the country. As co-founder of WHS she provided strategic planning, investment manager searches, performance measurement and specialized investment analysis and training to public pension funds across the country with assets totaling over \$150 billion. Affiliates of WHS included a brokerage firm that specialized in institutional trading, as well as a multi-manager investment trust that managed over \$100 million in assets. The company was especially noted for the educational programs it sponsored, including nine nationally recognized annual investment training conferences and numerous regional conferences which attracted investment managers as well as public, corporate and endowment plan fiduciaries and elected officials. Toni served as the primary retained consultant for several public pension funds, including funds for Louisiana School Employees, the New Orleans Sewerage and Water Board, the City of Atlanta General Employees, and the Riviera Beach, FL General Employees.

In 1981 Toni began her investment career in New Orleans at Howard Weil Labouisse Friedrichs, Inc. She has also worked at Great Western Financial Securities in Los Angeles, and the firms Morgan Keegan and Merrill Lynch, also in New Orleans. Her practice included working with community banks and insurance companies in cash management and developing retirement plans for employers and employees. She specialized in educating qualified individual investors about wealth building and retirement planning utilizing carefully tailored investment strategies.

Toni serves as Commissioner of the New Orleans Redevelopment Authority (NORA), The Housing Authority of New Orleans (HANO) and as a member of the Board of City Trust. She graduated with honors from Harvard College and earned an MBA from Columbia University. Toni is an Adjunct Professor at Southern University in New Orleans as well as Dillard University teaching finance, investments and entrepreneurship.

Chris Tobe, CFA, CAIA, Senior Consultant

Chris has 25 years of institutional investment experience with a focus on Public Pension plans. He is the author of *Kentucky Fried Pensions*, the current bestselling book on public pensions. Recently he has consulted to major public plans in Texas and Maryland with his firm, Stable Value Consultants.

From 2008-2012 he served as a Trustee and on the Investment Committee for the \$13 billion Kentucky Retirement Systems. From 2008-2009 he was a Sr. Consultant with NEPC and

worked with a number of public pension plans including, Oklahoma Investment Commission, Oklahoma Tobacco Fund, St. Louis Sewer District, St. Louis Public Schools, Amtrak and the City of Dearborn. While at AEGON from 2001-2008, he worked with public plans including those in Montana, Pennsylvania, Los Angeles County, Cook County in Illinois, Ohio, Vermont and the City of Memphis. While at Fund Evaluation Group from 1999-2001 Chris worked with public university endowments at Purdue, University of South Carolina, Indiana State and the University of Memphis. From 1997-1999 he worked with Kentucky State Auditor, Ed Hatchett and published a highly regarded report on the investments of both the Kentucky Retirement Systems and the Kentucky Teachers Retirements Systems.

Chris has published articles on public pension investing in the *Financial Analysts Journal*, *Journal of Investment Consulting* and *Plan Sponsor Magazine*. He currently writes a column for the Wall Street Journal "*Marketwatch*" and has been quoted in numerous publications including *Forbes*, *Bloomberg*, *Reuters*, *Pensions & Investments* and the *Wall Street Journal*. A frequent speaker on public pension topics, Chris has recently appeared before such groups as the Michigan Association of Public Pension Plans, the National Association of State Legislators, *Governing Magazine's* conference held at the National Press Club, and Ohio State's Moritz College of Law's "Roundtable on Public Pension Reform".

Chris earned an MBA in Finance and Accounting from Indiana University Bloomington and his undergraduate degree in Economics from Tulane University. As an adjunct professor, he has taught the MBA investment course at the University of Louisville, and has served as President of the CFA Society of Louisville. As a public pension trustee in 2010, he completed the Program for Advanced Trustee Studies at Harvard Law School and in 2011, the Fiduciary College at Stanford University.

Dorien Nunez, Senior Consultant

Co-Founder and Director of Research of OMNI Research and the Wall Street Advantage, Dorien has been the Director of Research for a number of niche broker-dealers and research firms including NYSE member firms. Though he associated with The Hackett Group in early 2011, Dorien has worked in various consulting roles for over 20 years with Ms. Antrum.

Dorien Nunez is a recognized expert on quantitative investment methods and tools, with over 30 years experience designing and utilizing them for peer group measurement, asset allocation and portfolio rebalancing. He has worked with some of the leading providers of software in the country and is currently an advisor to Zephyr, a leading provider of asset allocation, style analysis and performance measurement software.

Dorien provides his expertise to others in the institutional investment industry as a member of P&I's Research Advisory Panel and as a member of IMN's Advisory Board. He is also a

member of a national actuarial association and has served as an advisor to a university based actuarial program.

As a sought after speaker, Dorien calls upon experience which spans 30 years and includes institutional investing, providing investment research and consulting services to investment managers and Plan Sponsors, asset allocation analyses, due diligence on current or prospective investment firms, investment education, conducting risk management analyses and monitoring. He has developed custom research and risk management tools to better enhance manager performance and lower costs– including designing custom pension fund and investment manager research system packages with proprietary models.

Dorien has taught several courses in business and finance as an Adjunct Professor and created the fiduciary curriculum and training program for the AFL-CIO's oldest and largest constituency group, The A. Philip Randolph Institute. Nunez received his MBA from Harvard Business School where he won the Uehmann Award for his research on "The Use of the Futures Market for Institutional Investors to Hedge Risks".

Mr. Nunez also earned his undergraduate degree from Harvard College, concentrating in Sociology with an emphasis on Statistics.

John A. Washington, Senior Consultant

John A. Washington, a native of New Orleans, LA, possesses more than 30 years experience in investment banking, financial analysis, and small business advocacy. In his career he has developed specialized expertise in providing financial advisory services to both public and private sector clients, with particular emphasis public finance and real estate finance. Over his career John has completed various investment banking projects for both public agencies and private firms and possesses extensive Public Finance experience. An expert on fixed income markets, he has managed bond issues or served as the Financial Advisor for issuers including the New Orleans Aviation Board, the City of New Orleans, the Orleans Parish School Board, Entergy, and the Ernest N. Morial New Orleans Convention Center, among others.

John started, staffed, and managed the New Orleans Public Finance office of J. C. Bradford & Co., formerly a Nashville, TN based investment banking firm acquired by a larger concern. For five years Mr. Washington held the position of President and Chief Operating Officer of a FINRA member investment banking firm, responsible for all aspects of the firm's operations, including market strategies, management of the firm's participation in debt and equity financings, while also serving as the firm's compliance officer.

A past Board Member of the New Orleans Jazz and Heritage Foundation, John also served as Chairman of the Governance Committee of public radio station WWOZ-FM, and as Treasurer of

the Travelers' Aid Society of New Orleans. He earned his undergraduate degree from Harvard University in Engineering and Applied Physics and his Masters in Business Administration from the Stanford Graduate School of Business.

Horace G. McCormack, PhD, ASQ-CMQOE, Firm Principal

Dr. Horace G. McCormack, ASQ-CMQOE, President and Chief Executive Officer of HGM Management and Technologies, Inc. (HGM), is an international consultant, trainer, and researcher who has advised public and private sector leaders on quality, transformation and culture change management for the 21st century. HGM is certified by the U.S. Small Business Administration as an 8(a) Graduate Professional Services and Systems Integration firm, which is also Minority-Owned and certified in several states. Dr. McCormack possesses a diverse background with over 25 years experience in Management and Engineering, Consulting and Training.

His areas of expertise include: Strategic Planning, Human Capital Management, Capacity Building, Diversity Management, Industrial Engineering, Sustainability, Supply Chain Management, Asset Management, Energy Management, Quality and Productivity Management, Business Process Reengineering, and Organizational Transformation. A dynamic executive trainer and motivator, he has taught seminars and workshops, and developed training courses and guides in areas related to strategies and performance improvement. He has been a thought leader and strategist for radical change in several organizations that include, but are not limited to: US Federal Agencies, State and local entities, Health Care Institutions, Public Utilities (Water, Gas, Electric, and Telecommunications). He has completed numerous projects in the manufacturing and service industries and a selected number of private sector entities. Internationally, he has worked with the USAID, MCC, UNESCO, IDB in Asia, Africa and the Caribbean. In the Caribbean he has advised the National Water Commission, JPSCo, USAID, Ministries of Health, The University of the West Indies, UTECH, Grace Kennedy & Co., Nunes, Scholefield, and DeLeon, and other companies. Additionally, he has delivered performance improvement training to employees of numerous public and private sector entities.

Dr. McCormack holds a Bachelor of Science degree in Industrial Engineering, and a Master of Science in Management (MBA) from NYU/Polytechnic University, New York. He is also a graduate of the University of Technology and the University of the West Indies, with certifications in Electrical Engineering and Management, respectively. A member of the American Society for Quality (ASQ), Mr. McCormack is an ASQ-CMQOE (Certified Manager of Quality/Organizational Excellence).

A senior member of the Institute of Industrial Engineers (IIE) and Past President of the New York Chapter, Dr. McCormack has been cited in the International Who's Who of Professionals. Dr. McCormack also served on the Boards of the DC Chamber of Commerce, and Leadership

Greater Washington's Class of 2006. An active Rotarian and Major Donor, Paul Harris Society Member, Benefactor, he currently serves in District 7610, Virginia, as Past District Governor (2009-2010), Past Chairman-Council of Governors, Chairman for District Club Extension Committee, Chairman for Zone 33-34 US-Caribbean Partnership Program, and the Rotary District Ambassador to the Caribbean. He has also served as President for the Rotary Club of Falls Church of which he is a member.

3.4 REFERENCES

Jake Dinsdale | Performance Auditor | [801.755.7322](tel:801.755.7322)
Investment Performance Review, Utah Retirements Systems, Legislative Auditor.
Legislative Auditor Wayne Kidd wkidd@le.utah.gov [801.755.7322](tel:801.755.7322)
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Investment review – New Orleans Municipal Employees Retirement System
Toni Hackett and Dorien Nunez

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The Hackett Group

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TMSEL – Transit Management of Southeast Louisiana Pension Fund

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Review of Alternative Investments

Toni Hackett Antrum

3.5 METHODOLOGY, WORK PRODUCT AND TIMELINE

For this project, The Hackett Group would adopt the following methodology.

1. Document review

The engagement begins by reviewing and analyzing internal documents, guidelines, policies, past analytical reports and studies as well as actuarial reports, Board minutes, performance reports, annual fund audit reports, Investment Policy Statement, among others. From this step and others, THG will begin to identify the System's risks and controls.

2. Interview

The analysis will then be supplemented by a series of interviews with the Fund's administration, key staff members, Board members and the Fund's consultants.

3. Preliminary Findings

The Team will next review preliminary results gathered in the document review and interview process for each area identified in the audit scope. We will make a preliminary determination regarding the proper monitoring and oversight of investments, and whether investments are in compliance with contracts and the System's investment guidelines. As well, the Team will further refine the risk analysis, and make preliminary assessments concerning governance, organizational structure, legal compliance, and IT operations.

4. Analysis

In this stage, THG will identify the process controls and weaknesses, with input from SERS staff. The firm will design and execute tests of controls. For those areas identified from this examination, the firm will design and perform substantive tests. THG will document the process through its working papers.

The Senior Consultants will compile analysis/data related to national trends and comparable plans. This data will be used to compare SERS to a broad universe of trends, data, and comparable plans.

5. Recommendations

THG will engage SERS management in discussion of preliminary recommendations to determine accuracy and the feasibility of implementation.

6. Drafting

The milestone marking the completing of each category of the review will be the drafting of our findings to be incorporated into the final report.

7. Final Report Presentation

At dates, times and audiences determined by ORSC and SERS.

As mentioned earlier, resources to be used for national trends and best practices would include acknowledged industry standards (e.g., ERISA, UPIA, UMPERSA, AICPA, IIA, CFA Institute, Boston College Center for Retirement Research), secondary research from reputable industry sources (e.g., NASRA, DOL, SEC), GFOA, NCPERS, empirical facts gained from performing

similar reviews of other public retirement systems, independent research, and the extensive experience of our senior consultant and subject matter experts.

Other resources for this project will include outside databases to compare performance, asset allocation, and portfolio statistics. The primary database – The Wilshire Public Fund Universe¹ is a widely respected industry standard because of the independent reporting of returns by the custodial banks. The database takes into consideration the unique qualities of public fund, their risk profile, the similarity of liabilities, the investment constraints and their governance structure. We are careful to eliminate institutional investors such as corporate pension funds, foundations or endowments. While asset size may be the same, the fund profiles are dissimilar and therefore not comparable.

Description	Approach and Required Assistance or Input
<p>2.1 BOARD GOVERNANCE AND ADMINISTRATION</p>	<p>Board Governance administration is critically important component of this review. Studies indicate that proper oversight can add an additional 1 percent to overall fund performance. During this phase we will review policy and procedures, training, budget processes and adherence to those policies. We will conduct extensive interviews with staff and Board, including observing Board and committee meetings. Review of similar funds and sources will reveal best practices. While we will identify deficiencies, we will also highlight area of strengths.</p>
<p>2.2 ORGANIZATIONAL STRUCTURE AND STAFFING</p>	<p>Without proper staffing and structure, there will be sub optimal execution of policy and procedures and the desired organizational mission will not be achieved. We will conduct a thorough HR review and compare to other Ohio funds as well as similar sized funds. Important consideration will be an evaluation of investment staffing and their interface with the investment managers and consultants. As investments increase in complexity, it is important that investment staff is trained and able to monitor them properly. We will review customer service and performance and assess the staff continuing education, while reviewing effectiveness of training as well as cost. We will look at both senior staff as well as the approximately 179 associates. During this phase, we will construct a sample survey to determine external stakeholder satisfaction.</p>
<p>2.3 INVESTMENT POLICY AND OVERSIGHT</p>	<p>Investment Policy The governing document and the most important component of the investment review is the Investment Policy Statement - IPS.</p>

¹ Wilshire – Public Fund Universe

Wilshire Trust Universe Comparison Services (TUCS) Custodians submit asset positions and performance data to be pooled into universes of managed tax-exempt portfolios. Wilshire TUCS is the most widely accepted benchmark for the performance of institutional assets. It provides comprehensive information on the effects of risk, allocation, and style.

We not only look at the adequacy and completeness of the document, but adherence to policy. This will be accomplished by extensive conversations with the current consultant to determine the process for creating policy, how often it is reviewed and whether it is adhered to as outlined in the RFP. We will test areas by reviewing Board and committee minutes looking at areas such as manager selection, and rebalancing. We will make sure all assets are addressed in the policy and categorized properly. This is an area of particular concern in the area of alternative investments. *Excerpt #4, Page 32 IPS Best Practices*

Investment Oversight and review

We will review all the performance records, from the consultant, custodian, and directly from the manager. Outliers in performance will receive additional scrutiny and may involve communication with the consultant and/or investment manager directly. This phase of the project will be accomplished by reviewing performance monitoring reports by consultants and staff. We will be able to independently calculate manager performance of the traditional assets via a direct feed from the custodian. We will make sure that investments are measured against the appropriate benchmarks, especially in those areas where performance fees are a component of manager compensation.

The chart 1 below provides an example of the type of performance measurement we utilize to evaluate managers.

During this phase we will review the actuarial assumptions, systems and methods to calculate liabilities by reviewing actuarial studies and reports. If necessary we will rebuild an actuarial model to test the accuracy of the actuarial data. *Excerpt #3 page 29, Recommendations, City of New Orleans Investment and Actuarial Review*

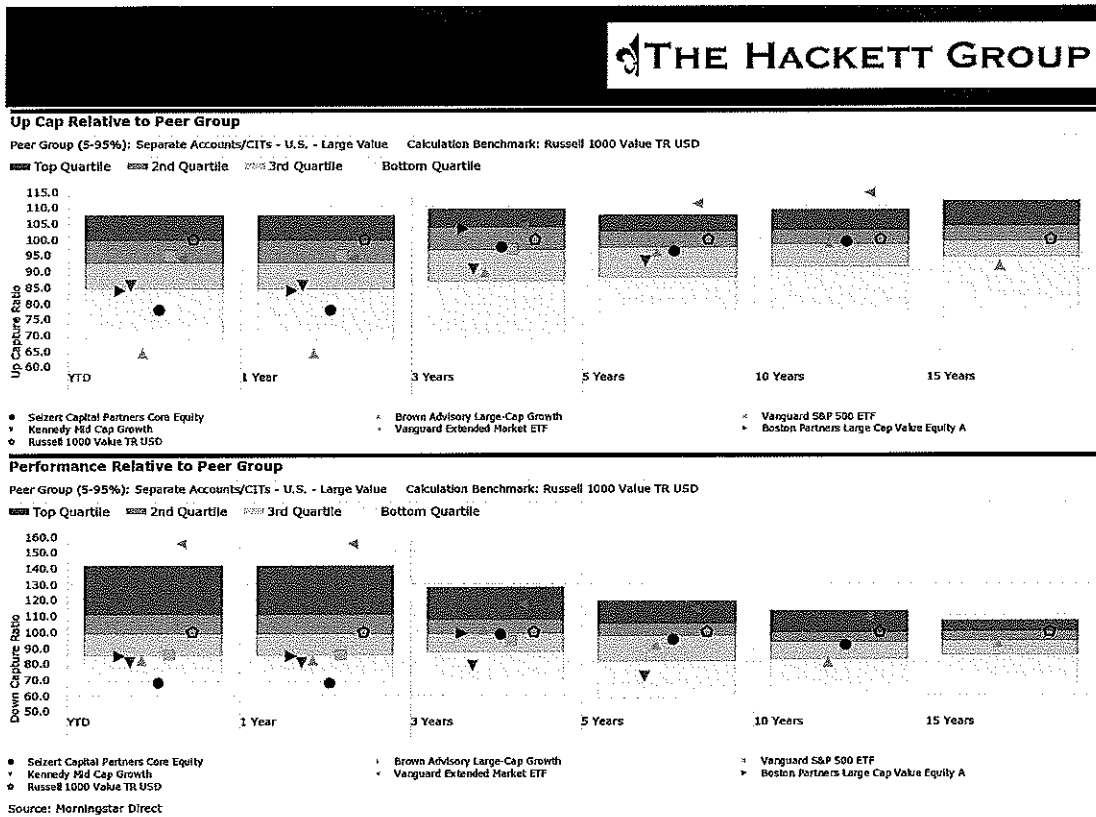
Costs are as important as investment return and in some case more controlling. We will review brokerage and trading costs, indicate areas where efficiencies can be gained, identify hidden costs as well as fees paid to external managers, with particular emphasis on hidden fees among alternative investment managers.

	<p>Investment and fiduciary risk</p> <p>Because we possess expertise in providing asset allocation reviews and studies combined with our experience in Board and fiduciary training, we will not only be able to evaluate the asset allocation models used by SERS, but also determine its implications in the risk profile and performance of the fund. We will look at how asset allocation and its implementation affects the actuarial picture and look at shortfalls in investment performance. Monte Carla simulations demonstrate the impact on the risk and return profile of the Fund integrating the fund’s liabilities (current and expected benefit payments), the contribution risk, and the effectiveness of the fund in providing benefit payments – the core mission of SERS. To assess the investment policies, asset allocation strategies and related portfolios, a number of analytical tools will be used.</p> <p>The risk management of the investment portfolio ultimately is what determines the ability to pay participants and beneficiaries their current and projected future benefits payments. The performance of the investment fund is a major determinant of this. Therefore managing investment risk is paramount. We will look at other risks such as market risk, currency risk, interest rate risk ,etc. and examine to what degree these are recognized, monitored, and mitigated by SERS staff and consultants, in this vital area.</p> <p>Custodian Policy</p> <p>The fund Custodian(s) is a cornerstone of risk controls, because assets are held for the benefit of the Fund. As the primary source of performance, valuation, reconciliation and record keeping, it is important that the best practices and most current services in this area are evaluated. Custodial banks frequently offer many services that clients do not take advantage of. We are firm believers in maximizing the services of this relationship. During this phase, we will review the custodial statements for traditional assets, review of all statements and contracts from alternative managers, and contact the custodian and managers for questions. The firm will place special emphasis on opaque asset classes and investments housed away from a custodian.</p>
<p>2.4 LEGAL COMPLIANCE</p>	<p>This phase will involve examining documents, any current written disclosures and then following up with interviews by e-mail and/or phone. Our expertise includes understanding the complexities of underlying documents and structures.</p>

	<p>The legal compliance review will be led by a firm that is noted for defending a national pension fund in ERISA litigation and matters involving governmental and judicial ethics, as well as the development of internal codes of conduct. An important component of the Legal review includes the adequacy of ethics training, disclosure, and monitoring of compliance for SERS. The Hackett Group has been certified as ethics training and is currently training city department and agencies and Boards on ethics. An important component of this phase is legal compliance and adherence to IRS regulations. The CPA and the legal team will confirm this portion of the review.</p>
<p>2.5 RISK MANAGEMENT AND CONTROLS</p>	<p>We have been engaged by the \$40 billion Maryland to carry out an operational audit for a portion of the fund’s portfolio. For Ohio SERS, we would follow similar steps.</p> <p>This will be done by examining current written procedures and then following up with interviews with staff and the internal auditor by e-mail and/or phone. If need, we will review the process and design means of testing in order to identify fraud, risk, or evaluate system controls.</p> <p>Conducting a documentary walkthrough of controls will allow THG, with input from Audit Staff, to identify significant controls and test for consistency of application, preliminarily identify both strengths and weaknesses of the Fund’s policies in place, and, importantly, identify missing controls. To accomplish this, THG will:</p> <ul style="list-style-type: none"> • Obtain, document, and analyze the System's written internal controls; • Document transaction reporting procedures and internal processes in each of the Fund’s strategies, based on current written policies; • View and document transactions from each strategy, based on statistical sampling techniques, to determine if sampled transactions flow properly through the internal controls system; and, • Document investment and operational risks based on the results. <p>Recommendations will be made as to the implementation of a system of internal controls and procedures that will minimize risk, if the Firm concludes that such systems would benefit from</p>

	<p>improvement. In our final report, we will provide recommendations for best practices to minimize risk for the Fund. A draft report will be provided at this stage of the engagement, allowing all parties to understand and resolve any differences between THG and staff regarding findings, and tentative conclusions and recommendations</p> <p>During this phase, team members we will include a CPA firm and Actuary. However, we will not render an accounting or actuarial opinion. Our opinion will be that of an investment and pension expert on the investment assumptions and returns as well as the actuarial assumptions and how they are reflected in the financial statements.</p>
<p>2.6 IT OPERATIONS</p>	<p>In this phase, the high risk areas in the SERS information technology system will be identified, evaluated and insure procedures for mitigation using IT industry standards. System analysis will include, but not be limited to software integration analysis, server and storage analysis and user interface analysis. We realize that SERS will be adopting a new enterprise web application, thus user interface analysis and software integration will be a primary focus of our review. An additional critical area of review will be the Incident management process as well as issues of security, redundancy and contingency, including the multi- step process for the incident management system. In order to accomplish this phase, consultants will be on site to observe and identify areas of deficiency and will require the input of the chief technology officer, the primary users of the system as well as end users. We would also require the input of external providers of software and other IT providers or vendors.</p>

Table 1 Manager Performance



The timing for this project is dependent upon access and response time of actuary, investment managers, custodian as well as turn-around time of document requests, data etc, and interviews scheduling.

We estimate a term of nine months maximum for this project. If contract is in place within the first quarter of 2016, we anticipate project completion by year-end 2016.

SERS Timeline

Phase	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
1. Governance Structure Review										
2. Organizational Structure and Staffing Review										
3. Investment Policy and Oversight										
4. Risk Management and Control										
6. Legal Compliance Review										
6. IT Evaluation										
7. Final Report Drafting and Staff/Board Presentation										

3.6 ADDITIONAL INFORMATION

Excerpt 1 Recommendations

New Orleans Municipal Employees Retirement System and New Orleans Firefighters Pension Fund Study Commissioned by New Orleans City Council – Retirement Committee and also the Mayor Office. 2012, Recommendations Section, Review performed by The Hackett Group

Recommendations	New Orleans Firefighters	Municipal Employees
Management & Governance		
The Board should create investment subcommittees allowing for in depth review and oversight of investments	✓	
The City, as the Plan Sponsor should exercise a greater role in oversight of fund	✓	
The Fund along with the City should create a liquidity plan that will reduce impact on investments	✓	
Improve documentation and communication of fund investments and investment performance to stakeholders	✓	
Analyze the Impact of missed contributions, annual required contribution (ARC), smoothing and amortization terms on the unfunded actuarial liability (UAL)	✓	
Adopt a cash management strategy creating a liquidity fund so that any liquidation of assets are not require for a “cash call”	✓	✓
Evaluate the costs and benefits of managing one or more of the equity allocation as index funds		✓
Evaluate managers for duplication of process and concentration to reduce portfolio risk/volatility		✓
Reduce or trim manager line up with the goal of reaching breakpoints, reducing fees, track fund of fund fees		✓
Adopt a policy that requires an asset/liability study be conducted every five years or when major changes in the benefits structure are planned	✓	✓
Investment Policy Statement (IPS)		
The IPS should include an overall target and maximum weighting for each asset including illiquid investments and a more representative market index that reflects the overall portfolio’s complexity and	✓	

illiquidity.		
The IPS should include a target weighting for each approved asset class.		✓
The IPS should include/clarify the board's rebalancing philosophy and specify a general course of action if an asset class exceeds its approved range.	✓	✓
The management report should include the estimated liquidity for the total portfolio and each investment manager and specify any penalty costs for early withdrawals.	✓	
On a continuing basis, the management report should include information about the weighted average fees for the total portfolio and each investment manager	✓	✓
The management report should include a comparison of performance and asset allocation to a universe of peer public pension plans and a revised market index.	✓	
	✓	
On a continuing basis, the management report should include risk statistics for the total plan relative to the market index, or for investment managers, compared to relevant benchmarks and risk statistics	✓	✓
Management & Performance Reporting	✓	
The management report should include a comparison of performance and asset allocation to a universe of peer public pension plans (<i>and revised market index that reflects the portfolio's complexity- NOFF</i>)	✓	✓
Reports should include details of the total and individual commitments to private equity and private real estate, including the amount of the original commitment, funding since inception, and any unfunded commitments.	✓	✓
On a continuing basis, the management report should include information about the fees, both gross and weighted averages, for the total portfolio and for each investment manager.	✓	✓
On a continuing basis, the management report should include net performance for its total portfolio and individual investment managers	✓	✓
Alternative Investments	✓	
Exploration of Secondary Market for Real Estate and other investments to create cash and unlock returns	✓	
Enhance monitoring of alternative managers. Consider using a specialist consultant because the asset class is a growing component of the total portfolio	✓	✓

Exit Strategy Analysis should be developed for illiquid investments, including exploration of secondary market for real estate, to create cash, realize returns or losses	✓	
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Excerpt #2 State of Utah Performance Audit

***A Performance Audit of URS’ Management and Investment Practices (April 2015)
Analysis and Expert Opinion***

Introduction

While URS has performed in line or slightly above its peers over ten years and longer periods, they have underperformed the last five years, after the 2008 crash. URS (along with around a quarter of the larger US public plans) significantly lowered allocations to US Stocks and primarily increased its allocations to alternatives. All of these plans, including URS, underperformed plans with more US Stocks in this period of very high stock market performance, especially compared to most alternative investments.

Fee Drag on Performance

My opinion and concern is that a significant amount of the alternative underperformance in the last five years for all public plans including URS is a result of high fees. Fees in alternatives, including performance fees, were calculated in a recent North Carolina report (completed by Benchmark Financial Services, Inc. for the State Employees Association of North Carolina) to be 300 basis points or more.^{iv} Utah’s 12% allocation to alternatives in 2004 has grown to nearly 40% allocation in 2014 which, by my estimate, means they could be paying over \$300 million a year in fees just in alternatives. While it is difficult to time markets and asset class, one thing plans can control, to some extent, is investment fees. It is important to note that URS was nationally lauded for its success in negotiating lower fees in 10 of its 40 hedge funds in 2009.^v However, 300 bps a year, or even 200 bps, is a significant drag on performance. Given URS prior success and continued high allocation to alternatives, I think it is important for the Utah Legislature to encourage URS to continue and expand their effort to minimize fees.

Alternative Investment Performance & Risk Factors

Many plans and consultants nationwide claim that their plans are less risky because of the higher allocation to alternatives which have less correlation with the stock market. I believe that this claim of lower risks have led to higher allocations of alternative investments in public pensions nationwide. I contend that while alternatives lower some risks, they raise many other types of risks. Specifically, I believe that the proponents of higher alternatives over emphasize the use of one-dimensional risk models based on standard deviation and correlation with, primarily, the stock market. I think the proponents under emphasize other risks such as liquidity risk, leverage risk, legal risk, fiduciary risk, pricing risk, and fee risk. Alternative assets do look attractive in the one-dimensional risk models because they perform differently than the stock market. There are diversification benefits that smooth out the overall plans standard deviation of return. I contend that if you put what I consider proper emphasis on the multitude of risks with alternatives, they are less attractive from a risk return point of view and deserve a lower allocation in portfolios. Public pension plans historically hired investment managers to manage the plans, stocks, and bonds that were owned and physically held in the name of the plan at a large custodial bank. This provided total transparency and instant liquidity, as well as reduced legal and fiduciary risk. Also, most custodians provided independent third party pricing for these stocks and bonds which

provided an additional check on the investment valuation and performance provided by the managers. However, in the last ten years many public pensions have moved significant assets into alternative assets. Most alternatives are not held by the custodian, but in a limited partnerships that generally have much more limited liquidity and transparency of not only the underlying assets, but of the fees and expenses charged as well.

Also, the pricing of the underlying illiquid assets—and thus the performance of these investments—are heavily influenced by the managers themselves with little or no independent third party pricing.

My opinion is that there is compelling evidence of very positive benefits for the first 10% in alternatives for the diversification benefits for most public pension plans under almost all market conditions. This is consistent with the 2004 URS allocation and some of the better performing peers, especially in the 5-year period. There are no hard and fast numbers, but as allocations get over 10%, and especially when they get over 20%, the other unmeasured risks I outlined before gradually, I believe, start to outweigh the diversification benefits from a normal stock market. A 40% allocation can be appropriate if the highest priority of the entity is to weather bad markets. But, for public pensions, in general, I think you are punished more for being wrong, than you are awarded for being right. Therefore, I believe that over time URS should consider reducing its 40% exposure to alternatives more in line with the median state plan, especially the hedge fund allocation.

Alternatives in Public Pension – Trends 2014

In April the SEC found that over half of the alternative managers (private equity & hedge funds) surveyed, charged additional fees on top of the already high fees.vii Toward the end of the year, under SEC pressure, major private equity firm Blackstone admitted to hiding fees.viii A few public plans in California, led by Orange County, are binding together to negotiate lower private equity fees collectively. Another report points out many plans have started to negotiate more regarding hedge fund fees in which URS already has a successful track record of aggressively negotiating fees.x A look at the industry demonstrates that varied philosophies exist on asset mix. On September 16, 2014 CALPERS announced it would dump its entire hedge fund portfolio of over \$4 billion because it finds them too costly and complicated.xi Days later, the State Auditor of Pennsylvania called for their major public plans to dump hedge funds. However many plans, including the Pennsylvania plan, and New Jersey and Texas Teachers have publicly declared they are sticking with their hedge fund allocations.

Conclusion

Investment performance is not only important to the participants in public pension plans, but to all taxpayers as it effects their contribution. URS has nearly twice the allocation to alternative investments than the median large state plan. Within alternatives, they have around four times the amount of hedge funds of the median plan. While they have less exposure to stock market swings than the average plan, I think these alternatives at this level increase some other types of risks. In my opinion most hedge funds and other alternative investments increase liquidity risk, leverage risk, legal risk, fiduciary risk, pricing risk, and fee risk. URS overall performance has ranged from below average to average, since the 2008 crash, but is not unlike a number of other public plans who have lower US stock allocations and higher than average allocations to alternatives, specifically hedge funds. URS held up better than most in 2008, but lagged in the bull markets of mostly 2009 and 2013 accounting for most of the difference. It is widely held in the investment industry that asset allocation drives over 90% of returns and this seems the case in Utah as well from the data. If URS had stuck with its 2004 asset allocation, using the exact same money managers, it would have been above average in performance, suggesting that selection of money managers has been mostly on target.

URS current allocation of around 40% alternatives (Real Estate + Private Equity + Hedge Fund) is set up to outperform peers if the stock market underperforms the alternatives, and conversely should underperform if, like in 2013, the stock market outperforms the alternatives. This is why I believe that over time URS should consider reducing its 40% exposure to alternatives, especially the hedge fund allocation. We do not know what future markets will be and how the investments will perform. It is a difficult for all plans to decide how much market risk they want to take. However we do know that pension contributions are not going away and that they will continue to be huge parts of state budgets. State governments will continue to grapple with the types and amount of oversight that they want to have over pension investments.

Excerpt #3 Recommendations, City of New Orleans Investment and Actuarial Review

*New Orleans Municipal Employees Retirement System
 Study Commissioned by New Orleans City Council – Retirement Committee
 2012, Recommendations Section, Review performed by Toni Hackett Antrum*

ALM

Do more efficient asset allocations exist?

Broad Asset Class	Expected Rate of Return	Standard Deviation
Fixed Income	3.5%	5%
Equity	8.5%	17%
Alternatives	10.5%	25%

	Fixed Income	Equity	Alternatives	10-yr PV Contributions			
				25 th %-tile	50 th %-tile	75 th %-tile	Standard Deviation
Current Mix	25%	63%	11%	127,857,514	147,763,341	165,589,780	27,483,518
Sample Mix 1	40%	40%	20%	134,308,824	150,492,318	165,096,014	22,999,506
Sample Mix 2	35%	50%	15%	132,692,015	149,657,580	165,343,723	24,195,465

PRELIMINARY RECOMMENDATIONS

ACTUARIAL ASSUMPTIONS

- *Update Mortality Table from 1971 to 2000.*
- *Extend Amortization Period from 10 years to 20 or 25 years*

PLAN DESIGN OR BENEFIT STRUCTURE

- *Consider dropping the DROP*
- *Moving Vesting from 5 yrs to 7 yrs (or up to 10 yrs)*
- *Modify multiplier to an across the board factor of 2.5X*
- *Increase Employee Contributions from 4% to 6% gradually.*

INVESTMENT POLICY AND ASSET ALLOCATION

- *Adopt a policy that requires an asset/liability study be conducted every five years or when major changes in the benefits structure are planned*
 - *Meets cash flow needs*
 - *Reduces risk (portfolio volatility)*
 - *Recognizes the need to stabilize and/or reduce contributions*
- *Ensure the next asset liability study is conducted by an independent investment consultant working in conjunction with an actuary*
- *Clarify rebalancing policy and indicate strategies that would bring the Fund to the policy target or the edge of the range*
- *Adopt a cash management strategy that creating a liquidity fund so that any liquidation of assets are not required for a "cash call"*

INVESTMENT MANAGER STRUCTURE

- *Reduce or trim manager line up with the goal of reaching breakpoints, reducing fees*
- *Evaluate managers for duplication of process and concentration*
- *Evaluate the costs and benefits of managing on or more of the equity allocation as index funds*

INVESTMENT PERFORMANCE REPORTING AND MONITORING

- *Enhance monitoring of alternative managers. Consider using a specialist consultant because the asset class is a growing component of the total portfolio*
- *Ensure tracking activities to include all the fees paid to fund of fund managers*

Excerpt #4 IPS Best Practices

*New Orleans Municipal Employees Retirement System
 Study Commissioned by New Orleans City Council – Retirement Committee
 2012, Recommendations Section, Review performed by Toni Hackett Antrum*

Best Practice for Comprehensive Investment Policy Statement (IPS) Subject Areas Checklist	
INTRODUCTION	NOMERS CURRENT POLICY
Reference to law creating the Fund with specific reference to investment related section of the law	Best practice
Description of intended beneficiaries of the fund	Best Practice
Scope or purview	Best Practice
STATEMENT OF PURPOSE	
Description of the fundamental purpose of the retirement fund	Best Practice
Language describing that the fiduciary must act in the sole interest of members and beneficiaries, and for the exclusive	Best Practice
LISTING OF INVESTMENT GOALS INCLUSION	
Preserve the actuarial soundness of the fund in order to meet benefit obligations	Needs Enhancement
Obtain a long-term rate of return (one or two market cycles) net of fees, equal to or in excess of the policy benchmark	Needs Enhancement
Clarify how to manage investment risks	Does Not Address
Establish risks that may be taken to achieve return goals	Needs Enhancement
Define policy benchmark and asset allocation targets	Needs Enhancement
Reference of the duty to incur only reasonable expenses	Does Not Address
IDENTIFICATION OF ROLES & RESPONSIBILITIES	
Board/Investment Committee	Best Practice
Internal staff – general and investment related duties, reporting and expectations	Does Not Address
Investment consultants – duties, reporting lines, expectations regarding the frequency of communications and acknowledgement of fiduciary responsibilities	Does Not Address
Investment managers – duties, acknowledgement of fiduciary responsibilities and frequency of communication (could reference contractual mandates	Needs Enhancement
Custodian bank – role as custodian or trustee and role regarding cash management, performance calculations, etc.	Does Not Address
Description of other service providers’ duties such as securities lending, brokerage, proxy voting, etc	Does Not Address
ASSET ALLOCATION	
Acknowledgement of its primary importance	Needs Enhancement
Recognition of the allocation’s purpose, such as to provide an optimal mix of investment to produce desired returns and meet current and future liabilities with minimal volatility	Best Practice
Description of frequency and methodology of asset liability modeling and allocation resetting	Does Not Address
Minimum, maximum and target allocation ranges	
Standards regarding diversification including limits to a single	

issuer, single asset class, economic sector, or country	
ASSET CLASS GUIDELINES AND BENCHMARKS	
Definition of each asset class and rational for inclusion in the portfolio	Does Not Address
Rational for selected benchmarks, who set them and how often they are revisited	Does Not Address
Description of any prohibited investments (e.g., short selling, margin, and investments precluded by law or regulations)	Needs Enhancement
Detailed overview of allowable credit risk in the portfolio (e.g. minimum credit rating for any fixed income investment as determined by a nationally recognized credit rating agency)	Best Practice
Rebalancing Policy	
Statement of the purpose of rebalancing (i.e. to ensure that the investment program adheres to its strategic asset allocation)	Needs Enhancement
Description of the timing and method used to rebalance (e.g. most cost effective manner, use of excess cash, index strategies as a source, or liquidation of over funded managers)	Needs Enhancement
Frequency of the portfolio reviewed for rebalancing	Does Not Address
MANAGER AND SERVICES PROVIDER SELECTION PROCESS	
Criteria used for selection of investment manager	
Steps required to remedy or address underperformance	
Steps for termination of managers	
MONITORING AND REPORTING	
Statement of purpose for monitoring and reporting (i.e. to ensure compliance with the IPS and applicable law, to manage risk, and to assess manager performance)	Needs Enhancement
Description of quarterly reporting for both external managers and other external investment professional (can include an outline of current strategy and investments, performance vs. benchmark, and portfolio composition relative to the asset allocation policy)	Needs Enhancement
Purpose and scope of annual and more frequent reporting	Does Not Address
SHAREHOLDER ACTIVITIES	
Description of the proxy voting policy and how votes are cast and recorded	Needs Enhancement
Statement of the circumstances under which the Board will sign on to or initiate a shareholder proposal	Does Not Address
Statement of how (or if) a focus list of underperforming companies is identified and what communication the Board takes to engage companies in dialogue	Does Not Address
Description of the process of opting in and out of shareholder class actions	Does Not Address
Identification of core principles of corporate governance (board independence, CEO compensation, access to the proxy, audit committee, etc)	Does Not Address
Requirement to annually review IPS	Does Not Address

3.7 GLOSSARY

- 1. "AICPA" American Institute of Certified Public Accounts**
- 2. "CFA" Chartered Financial Advisors Institute**
- 3. "DOL" Department of Labor**
- 4. "ERISA" Employee Retirement Income Security Act**
- 5. "GFOA" Government Finance Officers Association**
- 6. "HGM" HGM Management and Technologies Inc.**
- 7. "IIA" Institute of Internal Auditors**
- 8. "IPS" Investment Policy Statement**
- 9. "NASRA" National Association of State Retirement Administrators**
- 10. "NCPERS" The National Conference on Public Employee Retirement Systems**
- 11. "SEC" Securities and Exchange Commission**
- 12. "THG" The Hackett Group**
- 13. "UMPERSA" Management of Public Employee Retirement Systems Act**
- 14. "UPIA" Uniform Prudent Investor Act**

3.8 COST INFORMATION

The Hackett Group’s hourly fee is \$320. This figure represents a fully loaded rate including a blended rate for senior consultants, analysts, external subject matter professionals and clerical, databases and software, etc. Travel and direct project expenses are quoted separately in the “not to exceed” quote.

Description	Est. Hours	Cost
1. Governance & Administration	133	\$42,560
2. Organizational Review	140	44,800
3. Investment Review	260	83,200
4. Legal Compliance Review	75	24,000
5. Risk and Controls Review	220	70,400
6. IT Review	137	43,840
7. Reporting	95	30,400
Total	1,060	\$339,200

Fee Quote	Cost
1. Governance	\$ 42,560
2. Organizational	44,800
3. Investment Review	83,200
4. Legal	24,000
5. Risk and Controls	70,400
6. IT Review	43,840
7 Reporting	30,400
Total Fees:	\$339,200.00
Materials and Expenses:	
Travel expenses estimate for 20 round trips	20,000
Other project expenses, primarily printing and postage	2,500
Total Estimated Materials and Expenses:	22,500.00
Total Estimated Project Cost	<i>Not to exceed</i>
	\$361,700.00

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