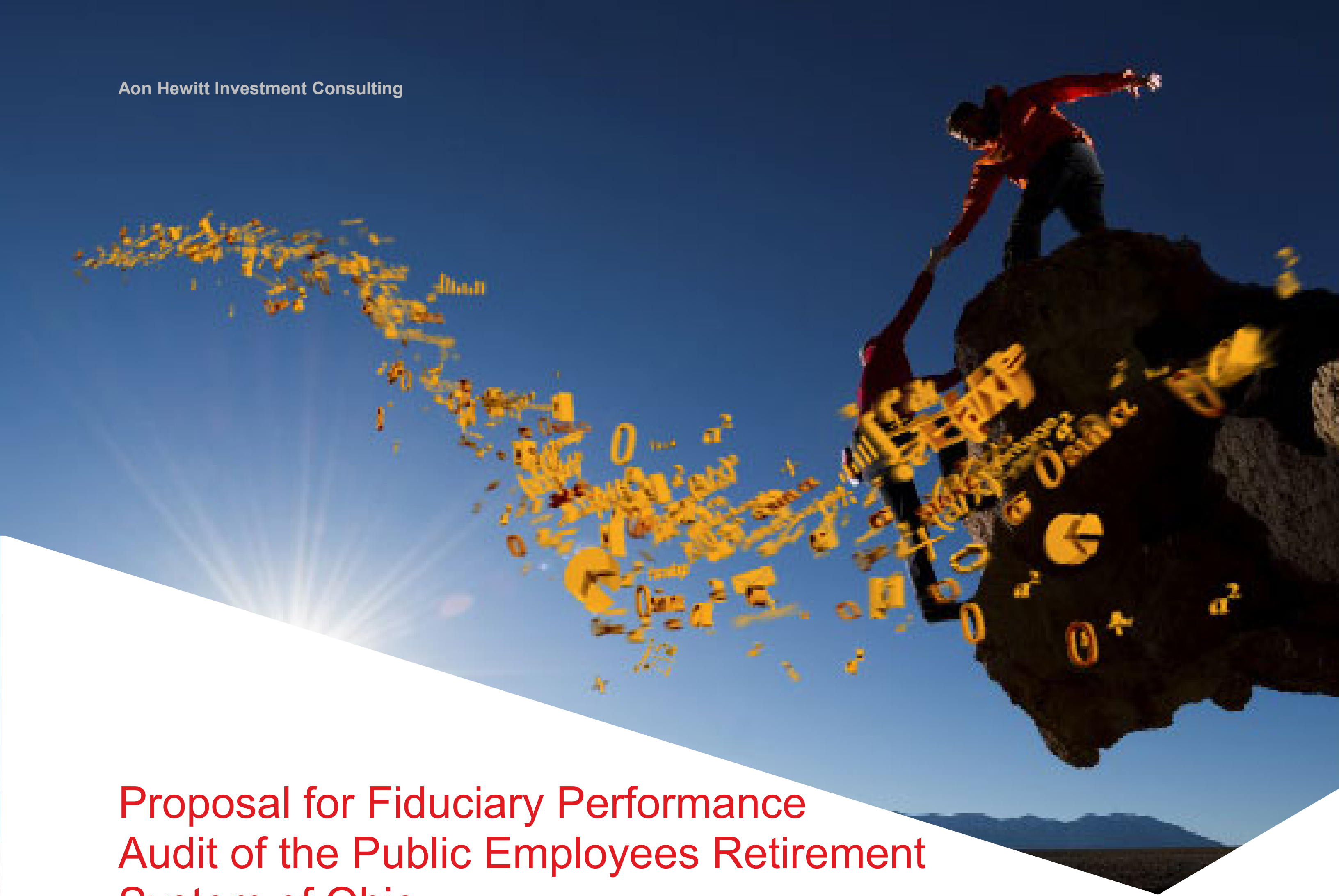
Aon Hewitt Investment Consulting



# Proposal for Fiduciary Performance Audit of the Public Employees Retirement System of Ohio

Ohio Retirement Study Council

November 2, 2017

**Contact:**
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November 1, 2017

Ms. Bethany Rhodes
Director
Ohio Retirement Study Council
30 East Broad Street, 2nd Floor,
Columbus, OH 43215

**Delivered via email to:** bethany.rhodes@orsc.org

Dear Bethany,

We are very pleased to submit this proposal in response to the Request for Proposal (RFP) requested by the Ohio Retirement Study Council ("ORSC") for the Fiduciary Performance Audit of the Public Employees Retirement System of Ohio ("OPERS" or "PERS"). Aon Hewitt Investment Consulting ("AHIC") satisfies all of the mandatory minimum qualifications. As our Response will validate, our firm has the qualifications and demonstrated combination of knowledge, proficiency, and long-standing experience necessary to effectively assess each of the categories detailed in your RFP's Scope of Audit.

We encourage you to call our references (provided in Section IV of our Response) to confirm the value we have provided performing other fiduciary reviews.

We are required by U.S. law to provide you with a copy of the firm's Form ADV, Part 2A. We have provided a link to the document in the Appendix. If there is any additional information you require, please do not hesitate to contact us.

Aon Hewitt already has a presence in the state of Ohio; three offices with 173 employees. We would be honored to expand our presence in the State of Ohio by providing service to the ORSC. We look forward to discussing our proposal in more detail. Thank you again for this opportunity.

Sincerely,

Aon Hewitt Investment Consulting

Jeanna M. Cullins
Partner

David Testore
NA Chief Operating Officer

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# I. Proposal 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 that the purpose of this project is to critically review and evaluate the organizational design, structure, and practices of Public Employees Retirement System of Ohio (OPERS)—overall and its investment program—in order to identify strengths and weakness, compare OPERS operation with best practices of comparable public funds, and make recommendations for enhancements. As one of the largest investment consulting firms in the world, Aon Hewitt Investment Consulting, Inc. ("AHIC"), we believe we are the best firm to conduct the fiduciary performance audit of OPERS on behalf of the Ohio Retirement Study Council for the following reasons.

## Firm Experience

First, AHIC has a long history of providing the services you seek. We understand large public sector asset management programs and the policies and processes that are needed to govern them because we work with them on a day-to-day basis. Beyond this, our client base gives us first-hand knowledge of the common and best practices of institutional investors, such as corporate pension funds, endowments, foundations, and Taft Hartley funds. We consistently see and advise on "good governance" practices that are designed to reduce fiduciary, governance, and investment risks; including but not limited to investment policy development and oversight, asset allocation, operational due diligence, risk management and controls, our clients' relationship with their custodian, and information technology systems. Our exposure to a wide range of funds makes us better-informed consultants, which will benefit the ORSC and OPERS because governance and investment best practices can be found anywhere and, if properly translated, may be beneficially applied in different situations.

## Capabilities

Our history assisting public funds goes back over 40 years through our legacy organizations. We are an investment consulting firm that offers a myriad of services, with significant depth of resources, including a dedicated, full-time, Fiduciary Services practice that has extensive experience conducting fiduciary audits and governance reviews of public retirement systems, state investment boards, nonprofits, state and federal oversight entities, corporate pension funds, endowments, and foundations. The leader of our Fiduciary Services practice, Jeanna Cullins, has participated in fiduciary reviews for almost 20 years, including many of the fiduciary performance reviews conducted on behalf of ORSC pursuant to R.C. 171.04(F), as well as the fiduciary review of OPERS, before the 10-year review requirement was enacted.

We have structured AHIC to focus heavily on competencies that are relevant to our clients. Consequently, we have created dedicated groups within our firm that add depth and breadth to the traditional investment consulting. Our dedicated groups include a global asset allocation team, an investment policy services group, a custody group, an alternatives investment group, a real estate group, an operational due diligence group, and our fiduciary services practice. These teams focus their efforts on issues such as market research, investment program structure, portfolio modeling, investment manager research, policy development, operational due diligence, custody and securities lending, and governance best practices. Additionally, when necessary, we have the ability to call upon the resources of the broader company—Aon Hewitt. This gives us the ability to add an Associate Partner from McLagan, Michael Oaks, to lead the team evaluating OPERS organizational structure and staffing.

We also have dedicated operational due diligence and custody groups. Our operational due diligence group is experienced in evaluating investment operations and operational due diligence processes of all types of institutional investors.

Our Fiduciary Services practice would lead the review using a team of professionals from each of these groups, as well as select members of our general consulting team who have worked on fiduciary review projects in the past. We have included a list of fiduciary reviews performed in the last five (5) years, which demonstrates our capabilities.

# Staffing Qualifications

The members of the AHIC Fiduciary Services practice have demonstrated experience and a strong industry reputation for conducting fiduciary performance reviews. AHIC will provide the ORSC with proven expertise, sound judgment, and independent advice regarding its governance of the OPERS investment program. We know from experience that this type of project requires the attention of senior-level professionals who can make sound judgments and render insightful recommendations based upon years of relevant industry experience. With this in mind, we have assembled a team of professionals for this project both from the Fiduciary Services practice, our general consulting team, the operational due diligence and custody groups. Most of these individuals have worked together on other fiduciary review projects. They are all subject matter experts with the knowledge required to address every aspect of your project’s scope of work. We have provided a project organizational chart in our response that indicates how team members will be assigned to task areas based on their respective skillsets.

# Methodology, Work Product, and Timeline

We have performed dozens of comprehensive fiduciary performance reviews, as well as smaller projects, that address one or more of the subjects in your Scope of Work. While certain aspects are customized to meet the clients’ objectives and timeline, our fundamental methodology remains the same from one project to the next. Our methodology pivots off of a mutually agreed-upon timeline that clearly delineates key activities and deliverables. The time required to complete reviews of this type is typically six to 12 months; we have been involved in expedited reviews as well as reviews that are more lengthy. The time required is often extended when there are multiple layers of review, such as review time required by the oversight entity and the subject of the review. We have used a six-month timeline, which includes review periods for ORSC and OPERS. We have found that this approach consistently leads to comprehensive fact gathering and analysis and a high- quality final report.

The reports we produce are clear, well-organized, comprehensive, unambiguous and devoid of surprises. We strive to make them concise and easy to use. In past similar projects, a vast majority—and at times, all—of our recommendations were accepted. We believe this comes from our in-depth understanding of the internal workings of public retirement systems and the environments in which they operate. We have included a link to our most recent fiduciary review released earlier this year, conducted on behalf of the City of Los Angeles Joint Administrators.

# Objective Advice

Consistent with our strong beliefs on the role and importance of a fiduciary, we operate in an objective manner. The only revenue we derive is the revenue that our clients pay us. The integrity of our firm is often as important a factor to our clients as is the quality and depth of our advice.

# Responses General Information Requested

***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 PERS staff use during the audit, including the contact's address, telephone and e-mail address;***

  Jeanna Cullins
  Partner, Practice Leader of Fiduciary Services
  Aon Hewitt Investment Consultant
  200 E. Randolph Street, Suite 1500
  Chicago, IL 60601
  +1.312.381.1241
  Jeanna.cullins@Aon Hewitt.com

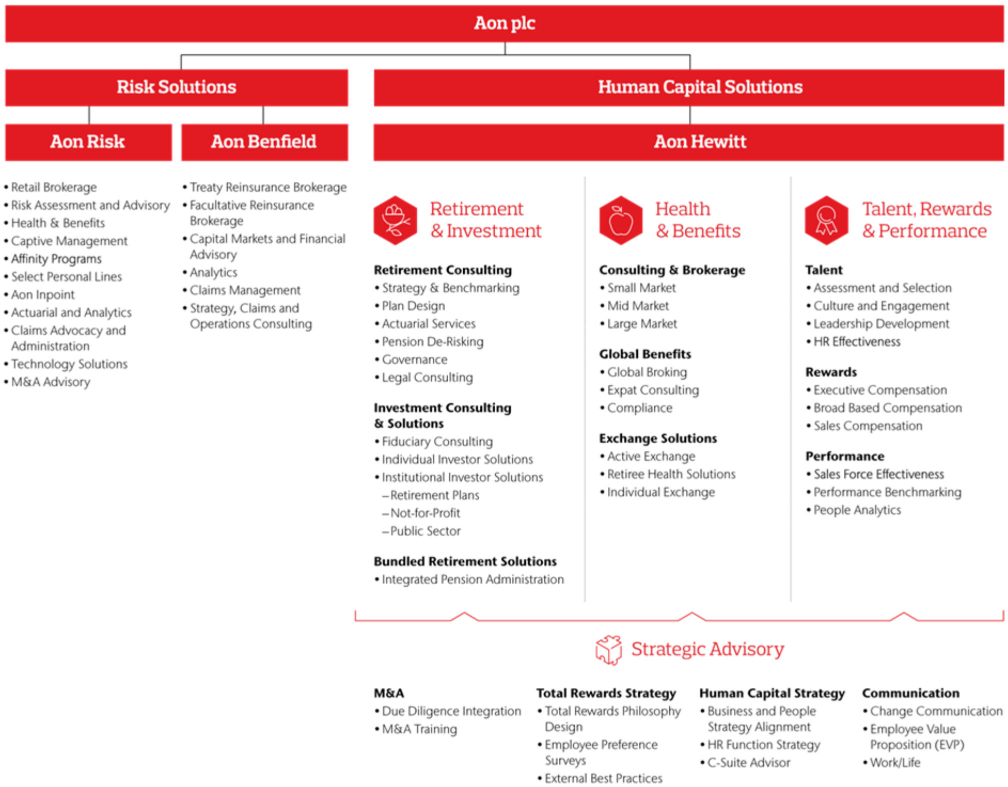
  Ms. Cullins is the primary contact for both ORSC and OPERS; we also propose the use of the following project coordinator. She will be responsible for document/information management.

  Janet Callion
  Fiduciary Consultant
  Aon Hewitt Investment Consultant
  200 E. Randolph Street, Suite 1500
  Chicago, IL 60601
  +1.312.381.1242
  Janet.callion@Aon Hewitt.com

- ***General ownership structure of your organization, including subsidiary and affiliated companies, and joint venture relationships;***

  Aon Hewitt Investment Consulting, Inc. (AHIC) is a U.S. investment consulting practice of Aon, with headquarters in Chicago, Illinois. AHIC is an indirect, wholly owned subsidiary of Aon plc, and is a Registered Investment Advisor with the U.S. Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended. AHIC is also registered with the Commodity Futures Trading Commission (CFTC) as a commodity pool operator and commodity trading advisor, and is a member of the National Futures Association (NFA).

  The organizational structure of our parent company is set forth below:




*Investment advisory services provided by Aon Hewitt Investment Consulting, Inc.; McLagan is part of Aon Hewitt's Talent, Rewards & Performance; additional services (which are not included in this project) provided by Aon Hewitt affiliated entities.*

The following is a list of AHIC's relevant affiliates identified above:

- **Aon Securities, Inc. ("ASI"):** ASI is an affiliate of AHIC. AHIC does not receive any revenue from ASI. ASI serves as a placement agent for AHIC's private fund vehicles, and as such, is responsible for the supervision of certain sales persons of AHIC's Delegated or Outsourced Chief Investment Officer ("OCIO") team. This oversight is required because a critical component of our OCIO business is private offering commingled investment vehicles, which are classified as a security for regulatory purposes. Therefore, selling units of this investment vehicle requires licensing by FINRA. These sales persons are dually-hatted with ASI and AHIC.
- **Aon Trust Company ("ATC"):** ATC is an Illinois state-chartered non-depository bank limited to trust-only powers. ATC was launched in direct response to a strategic plan focused on delivering a full-suite solution to Aon Hewitt clients requiring trust/custody services in conjunction with plan administration services. Executive and senior management of Aon Hewitt and its affiliates recognized that clients may be better served when all components of their plan administration are cohesively managed through affiliate organizations. The mandate and purpose of ATC is to deliver the trust and custody services as a component of the retirement solution offerings of Aon Hewitt and its affiliates.
- **Aon Risk Solutions ("ARS"):** Aon's global risk management business provides clients of all industry sectors with comprehensive risk management and employee benefits solutions. Guided by the Aon Client Promise, the ARS team delivers customized and innovative risk solutions to drive value for our clients through tools and capabilities.
- **Aon Benfield:** Aon's worldwide reinsurance entity offers reinsurance brokerage, analytical services, alternative risk financing vehicles, and wholesale brokerage services.

- ***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;***

As of January 1, 2015, the U.S. Investment Consulting group changed its name to Aon Hewitt Investment Consulting, Inc. from Hewitt EnnisKnupp, Inc. Aon (the ultimate parent of Aon Hewitt Investment Consulting) changed its jurisdiction of incorporation from Delaware to the UK via an internal reorganization at the end of Q1 2012. This change had no impact on the ownership of Aon Hewitt Investment Consulting.

On May 1, 2017, Blackstone acquired the core outsourcing and communications consulting businesses of Aon Hewitt, creating a new, stand-alone company. The new company, Alight Solutions, launched its new name and brand in June 2017, building on the rich heritage of both Hewitt Associates (founded in 1940) and Aon Hewitt (formed in 2010 when Aon acquired Hewitt).

On September 1, 2017, Aon announced the signing of a definitive agreement to acquire The Townsend Group, a leading provider of global investment management and advisory services focused on real estate and real assets. The acquisition is subject to customary closing conditions, and we cannot comment further at this time.

- ***If available, a third-party assessment or report concerning client satisfaction and measures of your firm's strengths and weaknesses;***

Aon Hewitt is dedicated to receiving and acting on client feedback to ensure that we continue delivering the highest quality services, building long-term business partnerships, and achieving measurable results for our clients.

We gather feedback via an internet-based satisfaction survey given to client contacts around the world. We've found this to be a very effective method that's been well-received by our clients, whose response rates exceed industry norms.

In our 2016 U.S. Client Promise Survey, results showed our U.S. clients' satisfaction to be closely aligned with their confidence in the quality of services they receive from Aon Hewitt, rating us 8.3 on a 10-point scale. Additionally, survey results indicated that clients view us as trusted advisors who are focused on their needs and priorities, giving us a rating of 8.5 on a 10-point scale. Similarly, clients believe that Aon Hewitt offers industry-leading experience and trustworthy people, also rating us an 8.5. We believe these exceptionally high ratings confirm Aon Hewitt's commitment to serving clients with quality, value, and results.

We are unable to release the report scorings from the survey.

- ***Any material litigation which has been threatened against your firm or to which your firm is currently a party;***

As might be expected, an organization the size and complexity of Aon plc and its subsidiaries has a range of litigation pending in the ordinary course of its business. Additional details of litigation filed against Aon are available in Aon Corporation's annual Form 10 K filing (Note 14) and Aon plc's quarterly Form 10 Q filing (Note 14), which are available on Aon's website (aon.com). Although the ultimate outcome of all such matters cannot be ascertained, it is the position of Aon plc that the disposition or ultimate determination of such claims will not have a material effect on the financial position of Aon plc or any of its subsidiaries.

- ***A list and brief description of litigation brought against your firm by existing or former clients over the last five years; and***

  As might be expected, an organization the size and complexity of Aon plc and its subsidiaries has a range of litigation pending in the ordinary course of its business. Additional details of litigation filed against Aon are available in Aon Corporation's annual Form 10 K filing (Note 14) and Aon plc's quarterly Form 10 Q filing (Note 14), which are available on Aon's website (aon.com). Although the ultimate outcome of all such matters cannot be ascertained, it is the position of Aon plc that the disposition or ultimate determination of such claims will not have a material effect on the financial position of Aon plc or any of its subsidiaries.

- ***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.***

  During the last five years, based on a review of our records and to the best of our belief, AHIC has not had any professional relationships involving the ORSC.

  We do currently have a professional relationship with OPERS, as the Board's alternatives investment consultant. We do not advise the staff or perform the role of a traditional investment consultant, nor do any of AHIC's dedicated investment groups provide services (e.g., governance consulting, custodial services, asset/liability or asset allocation work, operational due diligence). Rather, we serve as a source of independent expertise to the Board regarding OPERS alternative investments and trends in the alternative markets. None of the people who work on the OPERS relationship will be involved in any way in the OPERS fiduciary performance audit. Consequently, we do not believe there is a conflict of interest. Notwithstanding, when we have been retained to perform a fiduciary review of an entity where we are the traditional investment consultant (e.g., the Teachers Retirement System of Kentucky) and for clients that required a higher degree confidentiality (e.g., the Department of U.S. Treasury and a number of other confidential clients), we have executed an NDA within our contract, and/or established and maintained information blocking procedures to segregate, insulate, and bar internal discussion, outside the project team, of any and all information received regarding the fiduciary review (i.e., construct "Chinese Wall" protections). We would implement information-blocking procedures and execute an NDA so as to demonstrate conclusively that the fiduciary audit team would be completely walled off from the personnel involved with the current OPERS Board relationship.

  Previously, AHIC served as the deferred compensation consultant for OPERS for almost 17 years. McLagan has previously performed investment compensation studies for OPERS, and the Ohio Public Retirement Systems participate in their compensation benchmarking studies. Our Fiduciary Services practice has provided fiduciary and governance training to the five Ohio public retirement systems during their collectively educational session. In June 2017, our Fiduciary Services practice provided educational training to the OPERS board entitled "Fiduciary Audits," which addressed what a fiduciary audit entailed, including typical scope task areas and methodology, the benefits, and costs. We do not believe that any of these prior relationships constitute a conflict—actual or perceived.

  While we do not believe the following technically falls within the scope of this question, we believe it is essential to disclosure. The prior General Counsel of OPERS joined the AHIC Fiduciary Services practice effective October 30, 2017. She is statutorily barred from working on OPERS matters for a period of one year. Consequently, she will not participate in any manner on the OPERS fiduciary performance audit. Given this fact, we do not believe her retention constitutes a conflict relative to performing the proposed review.

# II. Capabilities and Experience

***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 PERS. You may provide a sampling or summary description of the scope of these projects and non-proprietary key findings and recommendations. You should include other information you believe may be relevant in demonstrating your capabilities in performing the actuarial audit, including other professional experience and data processing capabilities.***

## AHIC's Experience and Capability—Overall

We partner with our clients to provide a view of best practices in various areas, including governance, reporting, benchmarking, asset allocation, investment structure, investment policy, fees, emerging investment trends, and trust services, including custodial and audit support. One of our primary goals is to assist our clients in fulfilling their fiduciary responsibilities and making decisions that are in the best interests of plan participants. Having a dedicated Fiduciary Services practice, which performs fiduciary reviews, is consistent with that goal. We are the only large investment consultant firm that has a dedicated Fiduciary Services practice.

We have structured AHIC to focus heavily on competencies that are relevant to our clients. Consequently, we have created dedicated groups within our firm that add depth and breadth to the traditional investment consulting. These include a global asset allocation team, an investment policy services group, a custody group, an alternatives investment group, a real estate group, an operational due diligence group, and a Fiduciary Services practice. These teams focus their efforts on issues such as market research, investment program structure, portfolio modeling, investment manager research, policy development, operational due diligence, and governance best practices. Additionally, when necessary, we have the ability to call upon the resources of the broader company—Aon Hewitt (which includes McLagan, which we propose to use for this review).

Currently, AHIC serves 37 retainer public fund clients with approximately $1.377 trillion in assets under advisement (as of March 31, 2017), including the plans listed below[1]:

- Arkansas Teacher Retirement System
- Colorado Public Employees' Retirement
- Commonwealth of Puerto Rico
- Employees Retirement System of Texas
- Employees' Retirement System of Kansas City
- Kentucky Teachers' Retirement System
- Nebraska Investment Council
- New Jersey Division of Investment
- New York State Teachers' Retirement System
- North Carolina State Treasurer
- Ohio Public Employees Retirement System
- Pennsylvania Public School Employees' Retirement System
- San Diego City Employees' Retirement System
- Sonoma County Employees' Retirement Association
- State Board of Administration of Florida
- Teachers' Retirement System of Louisiana
- Teachers' Retirement System of Texas

We are confident that the depth and breadth of our experience in conducting fiduciary reviews and serving public entities provide us with a significant advantage—and a strong foundation—for the work you have requested.

[1] It is not known whether the listed clients approve or disapprove of AHIC or the investment advisory services provided.

Also of note, given the large number of public pension funds we serve, it is imperative that our consultant and our clients be aware of developing trends. Consequently, we have a Public Fund Interest Group that shares news, issues, and best practices from public retirement systems and state investment board clients. We regularly rely on this group of consultants for research, internal discussions, and dissemination of important information to our clients. Our knowledge of developing trends will also be beneficial in evaluating the practices of OPERS and making recommendation for enhancements.

# AHIC's Experience and Capability—Performing Fiduciary Reviews

Set forth below is a list of comparable fiduciary reviews conducted by AHIC (or its predecessor organizations—HEK or EK). AHIC is frequently requested by public funds, corporate funds, and endowments and foundations to perform smaller scope fiduciary review projects. We have only included those projects that we believe to be comparable to the ORSC's desired Scope of Audit. In response to your request, we have included the names of the consultants that worked on the various projects. Those names with an asterisk are no longer employed by AHIC. We have also included quick links to several of the fiduciary review reports.

In addition to the large, comprehensive fiduciary reviews, our Fiduciary Services practice is routinely engaged to provide fiduciary and/or governance training and diagnostics, provide advice on policy and process development and enhancement, assist with strategic planning, assist with board and staff evaluations, and review staffing adequacy. We have provided a representative list of fiduciary review practice clients in the section entitled "Additional Information." Our Fiduciary Services practice is passionate about the services it provides. For that reason, we will only bid on projects if we have capacity and there is not a conflict of interest.

Of note, AHIC is a registered investment advisor, subject to the SEC. As such, we routinely provide advice to our clients in the development of investment policies, conduct asset/liability studies, perform operational due diligence, provide investment performance, benchmarking, and oversight, assist with fee reviews, and custodian reviews.

- **Kentucky Teachers' Retirement System**—2016/present—TRS ended its 2016 fiscal year with $17.6 billion net assets. The active membership totaled 71,848 and the retired membership was 51,563. Members of the system participate in a DB plan.
  - The scope of the review consists of examining the policies and practices in five different areas within the organization. The five major areas cover the following: Governance, Organizational Structure/Personnel Practices, Investment Program, Transparency, Accountability and Risk Control, and Retiree Health Benefits Fund. There are several subcomponents within the major areas that are part of the scope of the review. We are examining the policies and practices in the investment area, assessing their appropriateness given the portfolio's current and future position, and comparing KTRS practices to the best practices in the public retirement industry.
  - Also, in 2009, TRS retained AHIC (previously HEK). The scope of the review was to examine the policies and practices in the investment area, assess their appropriateness given the portfolio's current and future position, and compare KTRS practices to the best practices in the public retirement industry. The areas reviewed included the investment portfolio, due diligence practices, custody arrangements, portfolio costs, and risk control and compliance.
  - Team members include Jeanna Cullins, Mike McCormack, Janet Callion, Leon Kung, Amy McDuffee*, and Michelle LaPlante*
- **City of Los Angeles Department of Water and Power Employees Retirement Plan (LAWPERP)**—2016/2017—As of June 30, 2016, the fiduciary net position of WPERP was $10.1 billion, $47.5 million, $28.2 million, and $1.7 billion for the Retirement, Disability, Death Benefit, and Retiree Health Benefits Funds, respectively. At the time of the audit, LAWPERP had three DB plans, with almost 9,400 active employees, 6,709 retired members, and 2,134 beneficiaries.

- The City of Los Angeles, through the City Controller's office, on behalf of the Joint Administrators, retained AHIC through a competitive bidding process to perform a management audit of LAWPERP. The purpose of the audit was to examine whether the WPERP operates in the most efficient and economical manner so as not to negatively affect the plan sponsor contribution. The audit covered the review of the WPERP's retiree payments and disability pension processing, administration of the retirement plan, actuarial assumptions, asset allocation, bench marking, governance and financial planning, and possible cost savings from consolidation. [Hyperlink-http://www.lacontroller.org/audits]
- Team members included Jeanna Cullins, Mike McCormack, Janet Callion, Amy McDuffee*, Michelle LaPlante*, and Tom Lee.

▪ **Delaware Public Employees' Retirement System (DPERS)**—2015—At the end of fiscal year 2014, the Board of DPERS was responsible for the control and management of over $9.2 billion dollars in assets. DPERS served a total membership of over 72,000 individuals; approximately 26,000 retirees and over 46,000 active employees and vested former employees. Members of the System participate in a DB plan.

- AHIC was retained by the Board's ad hoc Governance Subcommittee to examine select DPERS practices in light of best practices; identify areas where current practice conformed to best practice as well as areas for possible enhancement; and make recommendations for the Board's consideration. Areas of review included personnel practices and organizational structure, including the Board's scope of authority, adequacy of DPERS staff size, and qualifications, current performance evaluation process, training, succession planning, and the ability to attract and retain employees; governance policies, including statutory provision, charters, the process and criteria the Board uses to evaluate its effectiveness, and orientation of new members along with continuing education; internal controls and risk management, including the risk identification process and control activities and procedures and DPERS communication material.
- Team members included Jeanna Cullins, Janet Callion, Amy McDuffee*, and Michelle LaPlante*.

▪ **City of Los Angeles Fire and Police Fund (LAFPP)**—2013/2014—LAFPP ended its 2016 fiscal year with $17.6 billion net assets. The active membership totaled 71,848 and the retired membership was 51,563. Members of the System participate in a DB plan.

- The City of Los Angeles through the City Controller's office retained HEK through a competitive bidding process to perform a management audit of LAFPP. The audit was divided into two reports. The first report, issued in June 2013, included, among many other tasks, a review of LAFPP's investment performance monitoring and evaluation process. We have provided a hyperlink to the Interim Report for your convenience [Hyperlink to LAFPP Interim Report]. The issuance of the second and final report was in March 2014. We have provided a hyperlink to the final report for your convenience [Hyperlink to LAFPP Final Report]. We were recently selected again to conduct a management audit of the Los Angeles Department of Water and Power Employees Retirement Plan.
- Team members included Jeanna Cullins, Nancy Williams*, Scott Miller*, Amy McDuffee*, Janet Callion, Theola To*, Russ Charvonia, Melissa Ackerman*, Liz Rivers-Buckeley*, Kristin Doyle, Satya Kumar*, and David Rose.

▪ **North Carolina Department of State Treasurer**—2010/2013—The Department administers the public employee retirement systems for more than 900,000 North Carolinians, as well as the 401(k), 457, and 403(b) plans for public employees. At the end of the fiscal year ending June 30, 2017, total assets of these programs were $123.2 billion.

- HEK was retained by the State Treasurer, through a competitive bidding process, to conduct independent reviews of various aspects of the North Carolina Retirement Systems' investment program in 2013 and 2010. Both reviews included an evaluation of the asset management operations, manager selection, due diligence, compliance, internal controls, and performance monitoring processes used by the Treasurer's Investment Management Division. We have provided hyperlinks to our summary of the 2013 review (the detailed report is not publically available) and the complete 2010 review report. [Hyperlinks to NC May 2013 Due Diligence, Compliance, Fee Review and 2010 Independent Review and Evaluation of North Carolina Retirement Systems].

- Team members for the 2010 project included Jeanna Cullins, Nancy Williams*, Laurel Nicholson, Kris Ford*, Saba Hashmi*, Michelle LaPlante*, Satya Kumar*, Kristen Hanto*, and Armanda Yambao*.
- Team members for the 2013 project Included Jeanna Cullins, Nancy Williams*, Scott Miller*, Janet Callion, David Rose, Chris Riley, Mary Bates*, Martiza Martinez*, Matt Plaveczky*, and Chris Brandeley.

- **Large Confidential Canadian Investment Entity**—2013—HEK assisted the Internal Audit group in reviewing and evaluating the structure, processes, and procedures used by the entity's alternatives group to make and monitor direct and co-investments. The project included reviewing the content adequacy of the investment's staff's due diligence reports and benchmarking the alternatives group practices to those of other large, complex institutional investors. The Fiduciary Services practice teamed with the Private Markets practice to complete the project. Jeanna Cullins and Karen Rode, who are members of our proposed Review team, worked on this project together.
  - Team members included Jeanna Cullins, Karen Rhode, and Amy Hauke*.
- **New Mexico State Investment Council (NMSIC)**—2012—At the end of fiscal year 2016, the Council was responsible for the control and management of over $22 billion dollars in assets.
  - SIC retained us in to conduct a follow-up fiduciary review to the LCS's 2010 review. We were tasked with evaluating the progress made in implementing the recommendations made in our 2010 report for the LCS. We found that it had accomplished most of the 82 recommendations from the 2010 Review. Building on those governance changes, we worked with the SIC Governance Committee to address even more fundamental statutory, policy, and procedural modifications, which were subsequently adopted, leading to the most significant improvements in the organization's history and a model for other public funds to consider.
  - Team members included Nancy Williams, Jeanna Cullins, and Scott Miller*.
- **New Mexico Finance Authority (NMFA)**—2012—In July, 2012, the general public became aware that the New Mexico Finance Authority (NMFA) had issued a "fake audit" for its 2010–2011 fiscal year. The legislative NMFA Oversight Committee (NMFAOC), through the Legislative Council Service (LCS), immediately took action and retained HEK (sole sourced) to evaluate the NMFA's governance and related internal policies and processes. This review focused on internal controls and compliance. It demonstrated our ability to quickly analyze and manage a highly sensitive situation where a breakdown in an organization's oversight and compliance processes occurred. [Hyperlink to 2012 Process Review of New Mexico Finance Authority.]
  - Team members included Jeanna Cullins, Nancy Williams, Janet Callion, and Scott Miller*.
- **University of Florida Investment Corporation (UFICO)**—2012—HEK was retained (sole sourced) by the UFICO Board to perform an independent review of various aspects of its investment program. The scope of work for the project included UFICO's due diligence process, the sufficiency of the monitoring and reporting process to the board used by staff, performance oversight and reporting, the appropriateness of benchmarks, UFICO's risk management processes, fees, trading and operational costs, and clarity of roles and responsibilities as between the board and staff.
  - Team members included Nancy Williams, Jeanna Cullins, and Scott Miller*.
- **Ohio Highway Patrol Retirement System (HPRS)**—2011—HPRS ended its 2016 fiscal year with $8.2 billion net assets. The active membership totaled 1,670 and the retired membership was 1,590. Members of the System participate in a DB plan.
  - The HPRS review was commissioned by the Ohio Retirement Study Council (ORSC), a legislative oversight body. The purpose of the review was to evaluate the organizational structure, policies, and practices of HPRS and its investment program and compare them to both common industry standards and best practices in order to provide HPRS, ORSC, and/or the Legislature with recommendations for improvement. The scope of work was very comprehensive and covered the investment policy and investment strategy for the system, asset allocation, manager structure, manager selection and monitoring processes, selection of other investment related service providers, including the master custodian, brokerage function, and transition management function, cost effectiveness of the investment

operation, internal controls related to compliance, and internal staff qualifications and quality of its investment activities.

– Team members included Nancy Williams*, Jeanna Cullins, and Laurel Nicholson.

- **New Mexico State Investment Council, New Mexico Education Retirement Systems, and New Mexico Public Employees Retirement Association**—2010—At the end of fiscal year 2016, the Council was responsible for the control and management of over $22 billion in assets.
  – HEK was hired by the New Mexico Legislative Council Service, on behalf of the New Mexico Legislative Council and the Board of Finance, to conduct a simultaneous, independent operational and fiduciary review of three of New Mexico public fund investment agencies. The scope of work included a review of the agencies' policies, procedures, and practices related to asset allocation, asset classes, rebalancing of assets, investment goals and risk tolerance, internal and external management of assets, manager structure, selection of investment managers and custodian, alternative investments, benchmarks, compensation of managers, role and qualification of placement agents, and performance reporting. [Hyperlink to Fiduciary Reviews for New Mexico Investment Entities]
  – HEK was subsequently retained by one of the three public fund agencies under review (the New Mexico State Investment Council) to perform a follow-up independent operational and fiduciary review.
  – Team members included Nancy Williams*, Jeanna Cullins, and Laurel Nicholson.
- **City of Phoenix Employees' Retirement System (COPERS)**—2009—At the end of fiscal year 2016, the COPERS was responsible for management of over $2.1 billion in assets. The 15,553 participants of the System are in a DB plan.
  – The City of Phoenix, through the City Auditor's Department, retained Hewitt EnnisKnupp (predecessor to AHIC) to conduct a comprehensive review of the City of Phoenix Employees' Retirement System's investment program, including its practices, policies, and procedures. The review included an assessment of investment strategy, investment structure and fees, due diligence in investment manager selection and evaluation, and investment performance reporting processes.
  – [Hyperlink-https://www.phoenix.gov/coperssite/Documents/compreviewfull.pdf]
  – Team members included Nancy Williams*, Jeanna Cullins, and Laurel Nicholson.

## AHIC's Experience and Capability—Regarding the Eight Areas

Our firm has experience and capabilities in each of the eight areas you have requested information regarding, both as part of the fiduciary reviews we conduct (see the descriptions of the prior fiduciary audits we have performed), our retainer project relationship, and the operational due diligence work we perform for our clients.

We provide more detail regarding the firm's experience and capabilities regarding each of the eight areas below.

- ***Reviewing internal trading and trade processing operations and reviewing internal operational and investment risk controls;***

  All newly investment manager buy-rated strategies require a review from our global Operational Due Diligence ("ODD") group. We would apply the same through the operational due diligence process experience we have reviewing external money managers to a review of OPERS policies and processes.

  The ODD review includes an assessment of the investment manager's operations across eight core categories, as follows:

  - Corporate and Organizational Structure
  - Trade/Transaction Execution
  - Middle/Back Office and Valuation

- Compliance and Audit/Testing
- Investment and Counterparty Risk Oversight
- Technology and BC/DR
- Key Service Providers
- Fund Structure and Administration (when the investment is a pooled vehicle)

The final operational due diligence ratings are as follows:

| Rating | Definition |
|---|---|
| **"A1 Pass"** | We noted no material operational concerns and consider the firm's operations largely align with a well-controlled operating environment. |
| **"A2 Pass"** | The firm's operations largely align with a well-controlled operating environment, with limited exceptions. Managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice. |
| **"CP"** | We noted specific operational concerns that the firm has agreed to address in a reasonable time frame; upon resolution, we will review the firm's rating. |
| **"F"** | We noted material operational concerns that introduce the potential for economic or reputational exposure; we recommend that investors do not invest and/or divest current holdings. |

Upon the conclusion of the due diligence by our manager research teams, each product is scored and rated through a formal voting process of senior research professionals. The debrief process is intended to help ensure a robust debate of issues related to a product/strategy among the senior investment professionals responsible for conducting manager research. The products are voted on by the individuals that conducted the due diligence on a strategy, in addition to three independent senior voters. If a rating conclusion may not be agreed upon based on the research conducted, follow-up due diligence is carried out. Managers are rated a "Buy," "Sell," or "Qualified." Each manager must pass our operational due diligence process to receive a "Buy" rating.

In addition, our research team runs portfolio attribution at the holdings level in an attempt to better understand the drivers of results and challenge portfolio managers on their research and portfolio positioning. By evaluating these quantitative measures, the team gains a better understanding of how a manager may perform in a certain market environment or how well a manager should fit within a portfolio context. Furthermore, an ongoing evaluation of qualitative and quantitative characteristics potentially helps to determine how well a manager continues to provide the benefits for which it was originally hired. This dual evaluation helps the GIM team give clients a clear and accurate picture of investment managers.

Rian Akey, Griffin Keenan, and Mike McCormick have experience in this area.

- ***Reviewing ancillary investment functions such as cash management, securities lending, proxy voting, shareholder litigation, and regulatory reporting;***

AHIC has extensive expertise in evaluating securities lending programs. Our Trust Services team, comprised of six professionals, is responsible for research on securities lending, custody, and transition management. These research professionals are responsible for monitoring and evaluating custodian and third-party securities lending programs, conducting comprehensive securities lending program reviews, assisting clients in evaluating the costs, risks, and returns associated with lending programs, and providing education on securities lending to clients and consultants. Because securities lending programs involve lending securities and managing the underlying collateral investment, our evaluation of lending programs focuses on a number of program aspects. These aspects include lender capitalization/credit rating, compliance/risk control systems, collateral investment risk (quality, duration), collateral investment performance (compared to both short-term fixed income benchmarks as well as leading lending programs), lending risk (borrower creditworthiness), client/lender revenue split, lending performance (percentage-on-loan, spread, consistency of income), and lender client service and reporting. This team is also responsible for understanding current industry trends, the current market environment, and key regulatory issues. We also leverage our Fiduciary and Investment Policy teams to assist with policy and guideline reviews as well as our Fixed Income manager research professionals to assist in the evaluation of cash collateral managers.

Greg Korte and Chris Foster have experience in these subjects.

Most of these areas were subjects in the North Carolina fiduciary reviews, which Jeanna Cullins worked on. This year, Jeanna also assisted the State of Wisconsin Investment Board (SWIB) in a review of its proxy voting processes and advised the New Jersey Division of Investment of its proxy voting policy. She has also assisted other funds to develop securities litigation policies.

- ***Reviewing external manager and advisor selection processes, fee structures, reporting, and oversight;***

Our capabilities and experience reviewing these subjects are extensive because these are all areas that we routinely address as part of our traditional investment consulting services and as part of our operational due diligence services. These have also been a subject in several fiduciary reviews (Delaware, North Carolina, and the Los Angeles fiduciary reviews are examples). See the description of ODD above.

Additionally, as an investment advisory firm that offers a myriad of services, we routinely assist our clients in the review and selection of managers, advise on and review the reasonableness of manager fees (for both public and private market managers), and report on and assist with the oversight of our clients investment managers.

Our firm applies our solid fundamental viewpoints, as well as in-depth quantitative coverage, to evaluate and rate products according to myriad factors. Our process is a reflection of our organization’s operational and research analysis.

We use the InForm Process as a first step in reviewing, which uses a proprietary model, analyzes available investment manager data, and rates each manager product according to seven factors: business, staff, investment process, investment risk, performance, terms/conditions, and operations. The InForm Process applies a quantitative framework around the fundamental insights we have found indicate investment opportunities may be well positioned to ultimately add value going forward. The proprietary model was fully designed and created in-house by the Aon Center for Innovation and Analytics (ACIA).

The second phase is a more expanded evaluation of the seven factors listed. You will note that many of these factor are the same as those included in the fiduciary performance review’s scope of audit.

- **Business:** Profitability, stability, and spread of ownership, client base, remuneration policy
- **Staff:** Quality, depth of resource, team dynamic, staff turnover
- **Investment Process:** Competitive advantage, repeatability, skill, implementation
- **Risk:** Embedded in process, independent verification, mix of measurements
- **Performance Analysis:** Consistent with stated process, risk adjusted, persistent

- **Terms and Conditions:** Client Service, fees, ESG, best practices in documentation
- **Operational Due Diligence:** (see description of ODD above)

Rian Akey, Griffin Keenan, and Mike McCormick have experience in this area.

- ***Reviewing investment accounting processes, performance computation processes, and custodial support;***

These were all subjects included in the North Carolina fiduciary review. They are also subjects that our Trust and Custody group works on a routine bases for our retainer investment clients.

Greg Korte, Chris Foster, and Mike McCormick have experience in these subjects.

- ***Reviewing the staffing, structure, and employee satisfaction of investment organizations;***

Staffing and structure have been part of most prior fiduciary reviews, including Kentucky Teachers, Los Angeles, Delaware, and North Carolina (see descriptions of fiduciary reviews). We evaluate employee satisfaction in terms of turnover since many public funds do not conduct engagement surveys. Turnover is often examined in terms of the organization ability to attract and retain employees (i.e., adequacy of compensation).

These have also been subjects that Jeanna Cullins and Janet Callion have worked on in prior reviews. Mike Oaks from McLagan also have extensive experience evaluating staffing and compensation.

- ***Reviewing incentive compensation programs for public investment organizations; and***

While most public pension funds do not have incentive compensation programs, several of them do; particularly those that use internal management and/or complex asset classes and strategies. We have been requested to examine incentive compensation programs as part of a few fiduciary reviews. We also have been requested by clients to independently examine and verify the investment performance used to support incentive compensation programs (e.g., CALPERS and VRS). To broaden the depth of our resources and assist the Fiduciary Services practice for purposes of the PERS fiduciary performance review, we have incorporated the services of one of our Aon Hewitt partners, McLagan. McLagan is one of the premier compensation organizations in the country.

McLagan has completed pay-related projects for the following funds[1]:

- California Public Employees Retirement System
- California State Teachers Retirement System
- Canada Pension Plan Investment Board
- Colorado Public Employees' Retirement Assoc.
- Fire and Police Retirement Assoc. of Colorado
- Contra Costa County Retirement Association
- Fort Worth Pension Fund
- Massachusetts PRIM
- Municipal EE's Retirement System of Michigan
- Minnesota State Board of Investments
- Missouri State Employees' Retirement System
- NYC Office of the Comptroller
- Ohio School Employees' Retirement System
- Ohio State Teachers' Retirement System
- Ohio Public Employees Retirement System
- Ontario Teachers' Pension Plan Board
- Oregon State Treasury
- Pennsylvania Public Schools ERS
- Pennsylvania Employees' Retirement System
- San Bernardino County ERA
- State of Wisconsin Investment Board
- United Nations Joint Staff Pension Fund
- Virginia Retirement System
- Washington State Investment Board

[1] It is not known whether the listed clients approve or disapprove of McLagan or the advisory services provided.

McLagan has extensive proprietary surveys of pay levels and incentive plan design. Over 750 private and public sector asset management organizations participate in McLagan's annual pay surveys in the U.S. and Canada. McLagan understands and sees the underlying data; this will foster our ability to efficiently review and update the compensation study previously conducted by McLagan and CBIZ.

- ***Reviewing asset/liability studies and reviewing investment policies for a defined-benefit public pension plan.***

These subjects are frequently included in the fiduciary performance reviews we have performed. Asset/liability studies and investment policies are both part of the investment advisory work we provided to our retainer investment consulting clients. AHIC was an early adopter of the need to understand both the asset and liability sides of the pension funding equation. Our Investment Policy Services Team ("IPS"), led by Phil Kivarkis (a proposed team member for this project), leverages the experience of more than 30 dedicated individuals in the U.S., with backgrounds in investment management and actuarial science (as of September 2017). The IPS Services team conducts rigorous quantitative analysis to support investment policy recommendations. They assist on our capital market assumptions and asset liability studies and advise clients on intermediate and long-term asset allocation issues. They are responsible for managing risk in general, including performing asset liability analyses, designing custom portfolios, and monitoring portfolio positions from an asset liability and asset allocation perspective. The team also provides top-down, strategic investment advice and researches new investment strategies. The IPS conducts approximately 300 asset-liability studies each year, for clients ranging from $10 million to $150 billion. We have improved our model to better incorporate the circumstances of these plans, the industries they reside within, and how the capital market and economic variables may impact these circumstances on a go-forward basis. We have a stochastic model that reflects the unique circumstances of defined benefit public plans in their process.

Mike McCormick also has experience in this area and has addressed the subject in several fiduciary reviews.

# 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.***

See below.

***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.***

To mitigate key man risk, as a matter on practice, we assign multiple members (at least two) to each task area. Although rare during specific major project work, we have had key staff departures in the past and our key man mitigation approach has worked successfully. If any of the team members assigned to this project leave the firm, the project team leader would discuss the departure with the ORSC and, by mutual agreement, assign a replacement to the project team. In the unlikely event that Jeanna Cullins leaves the firm, Mike McCormick and Rian Akey would assume responsibility as the overall co-project managers as both are assigned to the majority of the categories.

***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.***

See resume summarizes below.

***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 PERS. 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.***

See summarizes below.

***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.***

A Management Plan Organizational Chart is provided on page 22. The hours we estimated will be required by each proposed project team member are provided by category and in total in the chart provided in Section VIII. Cost Information on page 40.

***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.***

Jeanna Cullins, Mike McCormick, and Janet Callion have conducted fiduciary audits of public funds within the last two years. Rian Akey has conducted an operational due diligence review for a public fund within the last two years.

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

We are affiliated with following organizations that support investment or fiduciary related research and employees of the firm are often featured speakers.

- CFA Institute (70 members of the firm hold the CFA designation, many others have completed Level I and Level II as of March 31, 2017)
- National Association of State Retirement Administration
- National Council on Teacher Retirements
- National Association of Public Employee Retirement Systems
- National Association of Public Pension Attorney (the Fiduciary Services practice leader is an Emeritus Board Member)
- National Institute on Retirement Security (Visionary Circle Member)
- International Foundation of Employees Benefit Plans (members of the firm, including one of the individuals proposed for the project team, are recent contributors to the content of the International Foundation of Employee Benefit Plans' Trustee Handbook).
- National Conference on Public Employees Retirement Systems
- National Association of Securities Professionals

# Summary Resumes for the Proposed Project Team

## Jeanna M. Cullins

*Partner, Leader of Fiduciary Services Practice*

Jeanna is an attorney who leads the firm's Fiduciary Services practice. Her primary focus is in the areas of governance and fiduciary reviews, governance diagnostics, policy assessment and development, risk management and internal controls, strategic planning, board/committee self-evaluations, and fiduciary education. Since joining AHIC, she has work on more than a dozen comprehensive fiduciary reviews. She is currently working on a fiduciary review of the Teacher Retirement System of Kentucky. The review of the Los Angeles Water and Power Employment Retirement Plan on behalf of the LA City Joint Administrators was completed earlier this year. Other fiduciary reviews she has led in the last five years include: the Delaware Public Employees Retirement System (2015), the City of Los Angeles Fire and Police Fund on behalf on the City Administrators (2014), the North Carolina Department of State Treasurer (2013), the New Mexico Finance Authority (2012), a confidential study of the organizational reporting structure of one of the largest public retirement systems in the world (2014), and a large and confidential Canadian investment entity (2013).

Prior to joining the AHIC in 2008, Jeanna served as Managing Director and Operational Review Practice Leader at Independent Fiduciary Services (IFS). During her 10-year tenure at IFS, Jeanna worked on more than 30 fiduciary/management audits (including the fiduciary performance audits of the Ohio Police and Fire Pension Fund (2006), the State Teachers Retirement System of Ohio (2006), and the Ohio Public Employees Retirement System (2000), advising the leadership of some of the largest pension funds in the country to develop effective, efficient, practical ways to enhance their operations. She served as Executive Director to the District of Columbia Retirement Board from 1993 to 1997, and as the Board's General Counsel from 1985 to 1993.

Jeanna earned a J.D. from Georgetown University Law Center and a B.A., cum laude, from Brooklyn College, City University of New York. She serves on the emeritus board and is an active member of the National Association of Public Pension Attorneys. She is a frequent speaker at pension industry conferences on various topics, including fiduciary reviews, "best practices," pension fund administration issues, and risk management.

Jeanna was named a Top Employee Benefit Consultant by *Human Resource Executive* and *Risk & Insurance* magazines and is a Chicago United Business Leader of Color. She is also a Board Director and Chair of the Governance Committee at Hershey Entertainment & Resorts and a National Association of Corporate Directors Governance Fellow.

## Rian Akey

*Partner, Global Head of Operational Due Diligence*

Rian joined Aon Hewitt in 2015. He was previously a Principal at Mercer Investments, working within the firm's specialty operational due diligence practice. Rian has been working in the financial industry since 1997. Prior to Mercer, he was the COO at Cole Partners, a Chicago-based hedge fund consultancy, and its investment adviser affiliate, Cole Partners Asset Management. He joined the Cole Partners organization in 1999 as the founder's first hire. Over his 12 years there, he developed and implemented the firm's research procedures, operations, and compliance. In 2005, he keyed the launch of the firm's first proprietary fund of funds, a specialty product dedicated to alpha-based commodity and natural resource investments. Rian received a B.A., cum laude, from the University of Notre Dame. His research on the relative merits of alpha and beta in commodity investments has been published in a variety of journals and books and has been delivered to conferences and symposiums around the world.

Rian and his team, which includes Griffin Keenan whom we propose as a member of the project team (see Griffin's bio below), routinely review the investment operational due diligence processes called for by the RFP's Scope of Audit: including but not limited to trading processes (such as trade controls, broker/counterparty selection, pretrade compliance, and allocations); middle and back office functions (such as trade confirmations, reconciliation, cash controls, valuation, collateral administration, valuation, and book of record and shadow accounting), and technology (such as technology infrastructure, technology and physical security, disaster recovery technology capabilities, and business continuity processes; selection and monitoring processes and procedures of key service provides, as well as segregations of duties and staffing adequacy and competency, employee retention and turnover, and key person exposure.

Examples of his review experience include the reviews of hundreds of investment managers on behalf of a broad range of clients, including PSERS and Texas ERS while at Aon Hewitt. Past clients have included some of the world's largest sovereign wealth funds and pension sponsors. In addition, he has previously led and participated in operational reviews similar to the one contemplated in this RFP's scope for Canadian and U.S. public plan sponsors.

## Phillip M. Kivarkis, FSA, EA, CFA

*Partner, U.S. Director of Investment Policy Services*

Phil is a recognized industry expert and is one of a limited number of consultants in the nation who hold both the FSA and CFA designations. He consults on all aspects of retirement plans. His work with clients includes development of pension risk management solutions, implementation of liability-driven investment strategies, evaluation and development of funding strategies, identification of retirement plan design strategies, retirement plan benchmarking, and pension risk benchmarking.

Phil leads approximately 200 to 300 pension asset-liability studies annually for plans ranging in size from $10 million to $150 billion, advising investment strategy on approximately $500 billion in aggregate each year.

He conducts investment research on innovative topics such as pension plan liability hedging solutions, systematic de-risking strategies and their implementation, and real return solutions for inflation-sensitive pension plan sponsors.

Phil serves as an actuarial expert for Aon Hewitt. He also serves as an investment expert for Aon Hewitt's Core Retirement practice. He has led training efforts for both internal and external audiences on thought leadership and pension risk management. He has also been quoted as an investment and actuarial expert in several media outlets.

Prior to joining the investment practice, Phil was a retirement actuary for Hewitt Associates. His work included annual pension and retirement welfare actuarial services, as well as financial strategy development related to retirement plan design and funding. In this role, Phil was the actuary for Chrysler Corp., Duke Energy, and Rand McNally & Company.

Phil is a Fellow of the Society of Actuaries and an Enrolled Actuary. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute. He graduated with highest distinction from the University of Illinois, and holds a B.S. degree in actuarial science.

## Greg Korte

*Partner, Trust & Custody Practice Leader*

Greg is the practice leader for AHIC's dedicated Trust and Custody group, which focuses on custodial relationships and securities lending consulting. He has significant experience helping large investment plans with custodian selection. Greg has spent more than 32 years working exclusively in the investment operations/custody industry and has extensive insight to the inner workings of custodian providers. During his career, he has personally managed the custody and securities lending vendors and programs for investment plans totaling over $63 billion in assets. Greg's combination of operations background and significant years of experience managing global operations and industry vendors make him a rare commodity in the consulting field.

Prior to joining AHIC in June 2017, Greg was a Senior Principal with Mercer, where he was recruited to rebuild the Mercer Sentinel Custody consulting group. He has also held the positions of Compliance Manager and Director Fund Operations Group at Russell Investments. He is a graduate of Franklin University, where he earned a B.S. in finance and management. He formerly held Financial Industry Regulatory Authority (FINRA) Series 7, 63.

## Michael Oak

*Associate Partner, McLagan*

Mike oversees McLagan's institutional investor clients, including public funds, corporate plan sponsors, endowments, and foundations. For these clients, Mr. Oak specializes in the following:

- Board advisory/executive compensation
- Incentive plan design/pay for performance
- Compensation philosophy and peer group development
- Compensation benchmarking and salary banding

He has worked with more than 100 public and private-sector asset management organizations on pay-related issues during his tenure at McLagan. He has worked on pay benchmarking for CalPERS, CalSTRS, Los Angeles County, and the United Nations. He was worked on incentive plan design for San Bernardino County Retirement System, the State of Wisconsin Investment Board (SWIB), the Virginia Retirement System (VRS), and Mass PRIM.

Mike is a frequent speaker on compensation-related topics for public funds.

## Michael W. McCormick

*Associate Partner*

Mike is an associate partner in AHIC's office in Chicago, Illinois. He currently provides consulting services to 10 clients with assets ranging from $20 million to $130 billion. In addition to his consulting role, Mike heads a group tasked with maintaining the ongoing development of firm technology and improvement of our proprietary universe data.

Mike works with a number of different client types, including Taft-Hartley, public defined benefit, and defined contribution plans. His most recent assignments include consulting on various retirement program design studies, fee analysis studies, and vendor analysis projects. Mike also recently contributed content for the International Foundation of Employee Benefit Plans' Trustee Handbook.

Mike routinely works on fiduciary review projects. Mike's fiduciary review projects include: the Teacher Retirement System of Kentucky, the Los Angeles Water and Power Employment Retirement Plan on behalf of the LA City Joint Administrators, and the City of Los Angeles Fire and Police Fund on behalf of the LA City Joint Administrators. Descriptions of these projects are provided in Section II.

Other relevant experience for this project includes:

- Assisting in a detailed review and making recommendations on the asset allocation strategy of a Taft-Hartley fund with investments across asset classes, including global equities, private equity, private real estate, fixed income, and hedge funds.
- Performing an independent evaluation and analysis of a $90 billion pension fund's asset allocation, fund investment performance (net of investment fees), asset class structure, and fees in comparison to relevant investment benchmarks and peer universes. Assets included those that were internally managed, as well as complex alternative holdings, including real estate and private equity.
- Determining whether a $14 billion pension fund's asset allocation was sound and its diversification appropriate, whether the fund adequately considered costs regarding investment performance, and making recommendations for improvement.

Mike is a graduate of Loyola University Chicago and earned a B.B.A. in finance and economics. He joined the firm in 2007. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.

## Griffin Keenan

*Senior Consultant, Head of North American Operational Due Diligence*

Griffin has more than 15 years of financial industry experience and focuses on operational due diligence related to investment managers. He is new to Aon Hewitt, joining in 2016, and is based in Chicago.

Griffin began his career in the financial services industry in 2002 at Morgan Stanley, where he spent nearly seven years on the Institutional Equities Desk. At Morgan Stanley Griffin, he held a number of roles within the Research Sales, Sales Trading, and Institutional Corporate Marketing departments. Griffin spent over three years in a Relationship Management capacity within Northern Trust's Investment Operations Outsourcing Business. At Northern Trust, he managed multiple teams that assisted institutional investment managers with complex problem resolution related to back and middle office outsourcing functions. Prior to joining Aon Hewitt, Griffin spent nearly three years as a Senior Associate at Mercer Investments, working with Rian Akey, where he led comprehensive investment manager due diligence engagements to uncover operational risk embedded with core firm functions. Griffin holds an M.B.A. from Northwestern University's J. L. Kellogg School of Management and a B.S. degree from Marquette University.

## Chris Foster

*Senior Consultant, Trust and Custody*

Chris has 17 years of experience working in both operational and client-facing positions at one of the major custody service providers in North America. During his time, Chris spent eight years working on custom client solutions.

Prior to joining AHIC in June, 2017, Chris was a Senior Associate at Mercer. While there, he worked with institutional clients to assess and compare their current custodian against other custodians in the industry. Primary responsibilities include designing and running at-market custodian search projects, performing fee benchmarking services, and providing other custom custody-related services such as unitization process analysis and securities lending benchmarking. During his tenure at Mercer, he completed 38 custody consulting projects as lead consultant or co-lead.

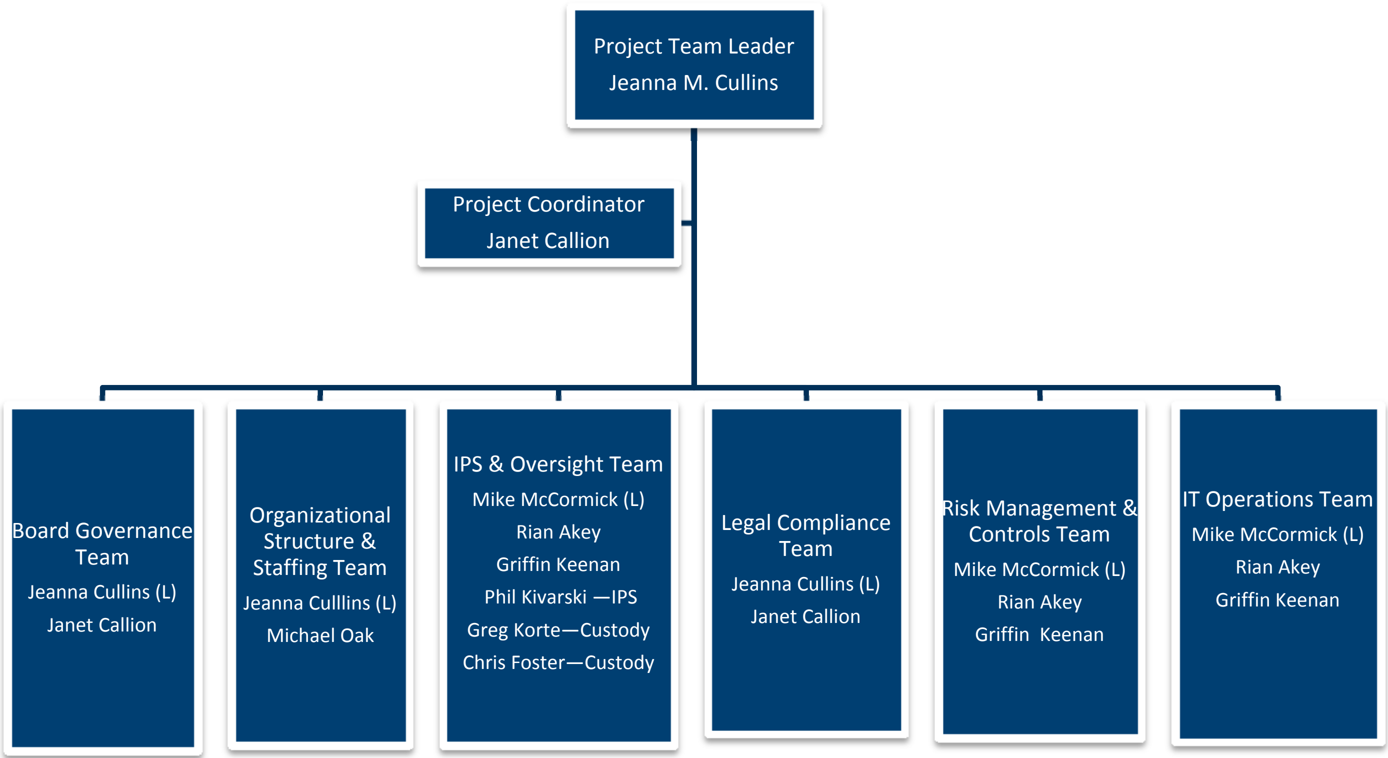
## Janet Callion

*Fiduciary Consultant, Fiduciary Services Practice*

Janet works as an integral part of the Fiduciary Services practice within the firm. In this capacity, she focuses on researching institutional investor common and best practices, policy reviews, fiduciary and management audits, governance diagnostics, board and senior staff leadership evaluations, strategic planning, trustee orientation, and fiduciary training. Since joining the firm in 2012, she has worked on the fiduciary reviews of the Teacher Retirement System of Kentucky, the Los Angeles Water and Power Employment Retirement Plan on behalf of the LA City Joint Administrators, the City of Los Angeles Fire and Police Fund on behalf of the LA City Joint Administrators, the Delaware Public Employees' Retirement Fund, and the North Carolina Department of the Treasurer.

Janet earned a B.A. degree in political science from Howard University, an M.P.A. degree from Indiana University, and a J.D. from Valparaiso University Law School. She maintains her license to practice law in Illinois. Janet has also obtained a Certified Employee Benefit Specialist designation through a joint program offered by the International Foundation of Employee Benefits Plans and the Wharton School of the University of Pennsylvania.

## Management Plan Organizational Chart




L= Team Lead
The lead team for each category has performed a fiduciary audit within the last two years.

# IV. References

***Each proposal must include a list of at least three organizations, but no more than five, that may be used as references for your work on fiduciary audits or studies. References 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.***

| Date of Audit Work | Client Name and Address | Name & Phone # of Individual at Client Familiar With Work | Description of Work (See details description of work in Section II) |
|---|---|---|---|
| 2012–2017 | City of Los Angeles and the Joint Administrators<br>200 N. Main Street, Suite 300<br>Los Angeles, CA 90012 | Cynthia Varela,<br>Chief Internal Auditor<br>+1.213.978.7389 | Like ORSC, the City of LA Joint Administrators are statutorily mandated to conduct a management audit (a.k.a. fiduciary review) of each of the city's three primary retirement systems. Topics typically included in the reviews are governance, benchmarking of practices, performance and costs, the appropriateness of the asset allocation process, compliance with policies and investment objectives, compliance with actuarial standards of practice, whether the administration of the plan minimized the plan sponsor's contribution, and pension payment processing. |
| 2016 to Present | Teachers Retirement System of Kentucky<br>479 Versailles Road<br>Frankfort, Kentucky 40601 | Eric Wampler<br>Deputy Executive Secretary<br>+1.502.848.8505 | The five major areas under review include the following: governance, organizational structure/personnel practices, investment program, transparency, accountability and risk control, and Retiree Health Benefits Fund. There are several subcomponents within the major areas that are part of the scope of the review. We are examining the policies and practices in the investment area, assessing their appropriateness given the portfolio's current and future position, and comparing KTRS practices to the best practices in the public retirement industry. |

| Date of Audit Work | Client Name and Address | Name & Phone # of Individual at Client Familiar With Work | Description of Work (See details description of work in Section II) |
|---|---|---|---|
| 2015 | KPMG<br>3 Chestnut Ridge Road<br>Montvale, NJ 07645 | Jennyrose Lisena, Partner in Charge Total Rewards<br>+1.201.307.7690 | The Fiduciary Services practice conducted an independent review of the plans' investment governance framework, spanning four key areas. The areas included investment program governance, the role of the internal staff supporting the investment program, the use of external support, and communication protocols used to convey benefits-related information to partners and employees. We examined KPMG's current practices in light of best practices and identified areas where there was a need for enhancement. |
| 2008–2016 | North Carolina Department of State Treasurer | Jay J. Chaudhuri<br>NC State Senator, Former General Counsel of the NC Retirement Systems<br>+1.919.890.0560 | AHIC (previously EK and HEK) has conducted multiple fiduciary reviews and governance projects for the North Carolina Department of State Treasurer, including serving as the advisor to the North Carolina Investment Fiduciary Governance Commission (2014). Detailed descriptions of some of these projects are provided in Section II. |
| 2012 and 2010 | New Mexico Legislative Council Services | Raul Burciaga<br>Director of LSC & Chair of the National Conference of State Legislatures<br>+1.505.986.4671 | Independent operational and fiduciary review of the governance, organizational structure, and current policies, procedures, and practices of each of the three New Mexico Funds compared to both common industry standards and best practices. We also provided recommendations on the design of an oversight body for the three New Mexico Funds (2010). In 2012, we reviewed the governance structure and internal control policies and processes of the New Mexico Finance Authority. |

# 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.***

## A. Overall Project Methodology

Based on our experience performing very similar projects, we generally use the systematic approach described below. We tweak the approach to meet individual client desires.

- **Step 1—Entrance Conference/Clarification of Scope/Initial Planning**. Our proposal is developed based on our understanding of the requested services outlined in your in RFP. Adjustments may be needed to ensure that the final scope and report format is consistent with the ORSC goals and objectives. To ensure the success of the project, it is critical that we have a "meeting of the minds" with respect to expectations, deliverables, timetables, team assignments, designated liaisons from ORSC and OPERS and communication protocols. At the entrance conference, we discuss and agree with you upon the methodology to accomplish the tasks in each category of the audit scope, the timeline, who is to be interviewed, the peer group to be used for comparison, communication protocols, and draft review process (e.g., are draft submitted to ORSC first and subsequently to OPERS, or submitted concurrently) . We then make any final adjustments to the plan and the timeline, and subsequently deliver monthly progress reports as the project engagement unfolds.
- **Step 2—Information Gathering**. In order to evaluate each of the subjects identified in the RFP's audit scope, we will need to become thoroughly familiar with applicable laws, written policies, and actual practices and processes, the staff from other areas supporting the OPERS, and certain key service providers. To accomplish this, we begin with an extensive document request to obtain information regarding OPERS that we cannot obtain through online research. In addition to the document request, we will develop an ODD questionnaire that will be used to gather and supplement information we received. The information we gather to enable our assessments will be limited to January 1 to December 31 of the most recently completed fiscal year.
  - We strive to gather information in a way that is the least disruptive to OPERS operations. We respect the fact that the agencies' regular business cannot come to a halt because of this project. Thus, we only ask for pertinent information needed to perform our assessment. We use the documents we obtain to understand the details of the organization, and to develop questions in preparation for interviews. If we need further clarification, we often need to request supplemental information after reviewing the documents or following the interviews. The initial document request is submitted at the entrance conference.
- **Step 3—On-site Interviews**. Meeting one on one with key people involved with the administration of OPERS is a critical step in understanding their circumstances, identifying strengths and weaknesses, and ultimately in developing appropriate recommendations. We prefer to conduct on-site interviews, when possible, with people directly associated with decision-making and the operations of OPERS; this includes the Board members, members of the OPERS Leadership team involved in the audit scope task areas (such as the Executive Director, Directors of OPERS' various business areas, CIO, CFO, Internal Auditor, General Counsel), the general investment consultant, asset class consultants, custody bank representatives, etc.). As noted above, we typically provide a proposed interviewee list at the entrance conference. When face to face interviews are not possible, we conduct telephone interviews. Prior to the start of the interview process, we provide all prospective interviewees with a letter of introduction. We find that this provides interviewee comfort level regarding the scope of the interview. We will conduct 1 on 2 interviews—two AHIC team members and the OPERS interviewee. This allows us to agree not to attribute statements to a specific interview, which promotes candor.

- **Step 4—Verification of Facts and Circumstances**. Ensuring that we are correct in our understanding of the facts and circumstances is a vital step in our independent review process. The facts lay the foundation for our analysis, conclusions, and recommendations. We will double check our data within our AHIC team and OPERS.
- **Step 5—Analysis and Comparisons.** The team proposed for this fiduciary performance audit includes subject-matter experts for each of the areas to be assessed. The subjects of review grouped by "Category" will be assigned to the respective subject matter expert(s). The Fiduciary Services Practice Leader will manage the project. Because she is also a subject matter expert, she will also participate in the interview process, work on distinct categories, and be integral to the report drafting process. This provides a functional familiarity regarding OPERS operations. To mitigate key man risk, we assign two or more individuals to each task area and two to each interview. In forming our opinions, we will make comparisons to the agreed upon peer group and where appropriate to industry institutional investors standards generally. We will note where OPERS already exhibits best practices, and identify the deficiencies where we see gaps.
- **Step 6—Initial Recommendations**. Recommendations will only be made after careful consideration. We will not give impractical advice that is unlikely to be adopted, nor will we utilize a "cookie cutter" approach. We will provide the ORSC and OPERS with sound and reasonable recommendations that can be reasonably implemented and are tailored to OPERS. Where appropriate, we will identify short term solutions to address immediate concerns, as well as provide possible alternatives for long-term consideration.
- **Step 7—Preparation of Draft Report**. Using the document review, interviews, analysis, and comparative data as a foundation, we will develop a draft report. The report will address the 6 Task Areas within the Scope of Audit and each of the roughly 47 subjects identified within those Task Areas. We propose to submit the draft report first to OPERS, to obtain their comments and ensure factually accuracy, and then to ORSC for its review and comment. As an alternative, we propose to submit the draft concurrently.
  - A review of a draft report not only mitigates the potential for inaccuracies, it also prevents surprises. This diminishes the potential of controversy; all parties are more engaged and vested in the end-product. Therefore, we encourage the ORSC to include this step as part of the fiduciary performance audit process.
  - **Report Format—**We can use a detailed or an abbreviated narrative approach for the report. A detailed narrative report sets forth not only our findings and recommendations, but also the factual basis and reasoning supporting them. It includes: (1) an executive summary; (2) findings, analysis, and conclusions; (3) recommendations, including suggested actions and/or tools needed to implement recommendations; (4) a recommendations matrix, including designation of priorities, identification of areas that will require legislative changes; and (5) an interviewee list. We find that this is the format typically desired by oversight entities.
  - As an alternative, some clients do not find it necessary to include contextual information and prefer an abbreviated narrative. Below is a redacted excerpt from a fiduciary review for another client which depicts how an abbreviated narrative report format can be used.

## V. Oversight

### A. Does the Board have a policy outlining the routine reports it is to regularly receive?

| Finding(s) | Recommendation(s) |
|---|---|
| • The Board has a policy that outlines the routine reports it is to regularly receive. It is currently in the process of being updated.<br>• This is consistent with best practice. | 15. Continue to update the Board's policy pertaining to its routine reports. |
| • The Board does not currently have a singular way to oversee all major risks across the organization (beyond just the investment portfolio).<br>• The CEO reported that an enterprise risk management initiative is planned for 2015. | 16. Discuss and implement an enterprise risk management framework. |

- **Step 8—Preparation of the Final Report.** Our final report will build upon the draft report. The final report will take into consideration all comments and recommended modifications provided by the OPERS and ORSC. The final report, however, will represent the independent work and professional judgment of AHIC. If requested, we will note any areas where we may not agree with PERS or ORSC and include the rationale supporting any differences. Using the report as the framework for discussion, we encourage OPERS to affirmatively accept or reject the recommendations, and agree upon the priority with which those that are adopted will be addressed. We will provide a recommendation matrix in the final report to facilitate this process. The matrix will prioritize the recommendations based upon our views regarding urgency, significance, and where possible potential costs or benefits associated with implementation.

# B. Detailed Methodology for Each Scope of Audit Category

## 1. Board Governance and Administration

To evaluate the governance of OPERS, we will start by reviewing the statutory authority granted by the Ohio Revised Code to the OPERS Board of Trustees, any by-laws, policies, charters, any written delegations of authority, governance manuals, and any other related documentation which set forth the authority, decision-making and oversight framework of the Board.

We will evaluate whether and how roles and responsibilities are documented for all areas over which the Board has responsibility, including the level of clarity regarding what authority the Board has retained, what it has delegated and to whom, and how OPERS practices compare to peers and emerging public fund trends. We will also assess whether OPERS has processes in place to ensure that its practices are consistent with such documentation.

We will review the Board's composition, selection process, terms, and any experience requirement. We believe that the way in which a board is constituted may have an impact on how effectively it carries out its responsibilities. We work with many different boards: some are comprised primarily of appointed members; some are comprised of elected officials; some have both; some have specific expertise requirement. We will consider these factors, and others when we assess OPERS structure and governance process compared to industry standards and best practices.

A developing "good" governance trend is requiring ongoing education, either by statute or policy. We will examine OPERS education, training, and the reasonableness of associated costs, any requirements regarding continuing education and provide findings and recommendations where appropriate.

We will examine OPERS statutory and administrative rules and determine whether OPERS has policies and processes designed to ensure Board and staff compliance.

We will review the OPERS budget for the most recently completed fiscal year and determine whether its spending is in compliance with the approved budget. We will also compare OPERS administrative costs to comparable funds. We understand that we will have access to the last CEM report and the data used to develop the report.

As a registered investment advisor, our firm has conflict of interest management policies and systems in place which guard against professional conflict. This provides our firm with a first-hand point of reference to analyze the written policies and procedures OPERS uses to monitor and guard against professional conflicts of interest. Our analysis will consider whether the "tone at the top" fosters a culture of conflicts avoidance, the subjects addressed in OPERS conflicts policies, whether there is a designated staff person to respond to questions regarding conflicts, the frequency of conflicts disclosures, whether the process is applied organization-wide or limited in application, whether the reporting tool used is written or electronic, and the adequacy of conflicts training. Based on our findings, if needed, we will provide recommendations for enhancing OPERS written policies or procedures.

Succession planning is currently a “good governance” theme which many board, public and corporations, are addressing. As part of our review of board governance and administration, we will review the adequacy of the OPERS succession planning process for key positions.

Finally, we will review OPERS policies and procedure related to communications between the Board and its members and retirees, including whether they promote transparency.

## 2. Organizational Structure and Staffing

For this section, we will review the overall organizational structure of OPERS and its effectiveness in executing the policies and processes as defined by the OPERS Board and leadership; we will identify where there are gaps and make recommendations for enhancements. As part of our assessment we will:

- Review OPERS’ staff size for each department,
- Evaluate OPERS’ hiring procedures and determine whether staffing qualifications are clearly Identified and consistent with what we would expect for similar positions in the industry,
- Examine staff roles and advise whether they are clearly defined and consistent with those we would expect to find at comparable funds,
- Update the last compensation study for investment and key non-investment personnel using current available data to advise whether compensation is sufficient to attract and retain qualified professional staff; including identifying whether there are any statutory impediments that limit OPERS’ ability to offer competitive compensation,
- Look at OPERS’ performance evaluation process and determine whether the current approach is consistent with industry best practice; such as whether the process is conducted annually, whether expectations regarding staff performance are clearly defined and provided to staff in advance, whether it provides for interim feedback is provided to staff, whether the defined objective are measurable, etc.,
- Determine whether there is a process in place to monitor and maintain staff qualifications and promote continuing education.

We will then compare OPERS’ practices in each of these areas to those of comparable pension funds.

## 3. Investment Policy and Oversight

Each of the task areas separately identified in this category are interrelated. We have separately addressed each for purposes of responsiveness to the RFP requirements. Our report findings and recommendations will be presented in a holistic, integrated manner.

### a. Investment Policy

The investment policy statement is the framework for the entire investment program; it is a fundamental governance document. Its importance in articulating the objectives and parameters of the program cannot be overemphasized. AHIC has reviewed hundreds of investment policy statements, as part of fiduciary reviews and as part of the investment advisory work we provided to our retainer investment consulting clients. We appreciate that no two investment programs have the same goals, objectives, and liquidity needs; however, the most comprehensive investment policy statements include some basic components. We have developed a propriety checklist representing industry best practices. We will use the checklist to evaluate the OPERS investment policy statement and make recommendations where we see gaps.

We believe, and research supports, that the asset allocation is the single greatest determinate of investment performance. We have substantial experience in working with our clients, whether as part of a fiduciary review or as their ongoing retainer consultant, on how to design an IPS that reflects the clients investment goals and risk tolerances, and is consistent with the ALM study outcomes.

To accomplish this task we will review the documents related to this task area (e.g., the IPS, the last asset allocation study, the last ALM study) and interview pertinent parties (including the investment consultant and actuary) involved in the implementation and oversight. We will compare the current IPS to our proprietary checklist and identify any gaps which we believe could enhance OPERS' IPS. We understand and will address the types of risk and exposures that should be addressed in an investment policy statement, depending on the asset classes and investment strategy involved. We will base our analysis on financial concepts, peer comparison, as well as practical realities, and will recommend including only those factors that realistically can be managed and applied.

We advise on and compare to best practices:

- the comprehensive of the IPS, including the process use to ensure adherence,
- the process used to adopt, monitor, periodically review, and update the IPS, including the role of the ALM study,
- the process used to set, monitor, and revise the asset allocation,
- OPERS rebalancing and due diligence processes, including controls and reporting to ensure adherence to the IPS.

Phil Kivarkis, the firm's U.S. Director of Investment Policy Services, will provide valuable assistance in this regard as well as with regard to assessing the OPERS' asset allocation. Phil's team performs approximately 200 to 300 pension asset liability studies on average per year.

Phil is one of a very limited number of consultants in the nation that holds both the FSA and CFA designations and is a recognized industry expert. Mike McCormack, who typically is part of the team used by the Fiduciary Services practice will lead the review effort for this subject.

## b. Investment Oversight and Review

For the Investment Oversight and Review evaluation, we will approach the review as follows:

Within two weeks of the contract date we will provide OPERS with a written questionnaire and data request that will allow us to compile information in order to assess and compare OPERS' policies and procedures in relation to market and best practice. We will follow the written response with a series of on-site or teleconference informational interviews with key OPERS personnel in order to clarify, expand upon, or otherwise complement information collected in the written response. On-site reviews will include demonstrations of key processes. In the aggregate, our information sources will include (but are not limited to) the following:

- Responses to our specific questionnaire
- Operational process and procedures manuals
- Policies related to trade or transaction execution
- Committee charters as well as committee meeting packages for select committees
- Risk policies and procedures
- Internal controls testing plans or reports (either internal or external or both)
- Operational risk reports
- Interviews with key personnel, including the following or equivalent roles: CEO, Portfolio Managers, Head of Risk, Head of Internal Audit, Head of Compliance, Chief Financial Officer, Chief Operating Officer, and additional finance and operations staff, as warranted.
- Interviews with key external service providers, as warranted (audit, custodian, etc.)

Our evaluation will also include an assessment of the OPERS' process and its governance policies and processes regarding this subject area. The evaluation will consider how and whether the OPERS' framework has the ability to 1) Identify risks; 2) Respond to risks through escalation or the development of appropriate policies and procedures; and 3) Assure that policies and procedures are implemented effectively.

The evaluation will include a review of the following and comparison to market and best practices:

1. Investment decision making policies, processes, and general investment administration
2. The appropriateness of policies, and processes used to review and monitor investment performance—internal and external
3. Communication of trades/transactions and pre-trade controls
4. Whether policies or processes foster the likelihood of compliance
5. Due diligence process for external managers
6. Trade or Transaction controls and oversight, including, if applicable, the use of directed brokerage and commission recapture
7. Allocations (if necessary)
8. Trade and transaction settlement
9. Back office and valuation

## c. Investment and Fiduciary Risk

We will approach the review of this subject area as follows:

In addition to the document request, we will provide OPERS with a written questionnaire that will allow us to compile information in order to assess and compare OPERS' approach in relation to market and best practice. We will follow the written response with a series of on-site or teleconference informational interviews with key OPERS personnel in order to clarify, expand upon, or otherwise complement information collected in the written response. On site reviews may include demonstrations of key processes or documents.

In the aggregate, our information sources will include (but are not limited to) the following:

- Responses to our customized questionnaire
- Board or Board sub-committee charters as well as committee meeting packages for select committees
- Board Meeting information packages and minutes
- Investment policy statements
- Operational process and procedures manuals
- Risk policies and procedures
- Internal controls testing plans or reports (either internal or external or both)
- Operational risk reports
- Interviews with Board Members
- Interviews with key personnel, including the following or equivalent roles: CEO, Portfolio Managers, Head of Risk, Head of Internal Audit, Head of Compliance, Chief Financial Officer, Chief Operating Officer, and additional finance and operations staff, as warranted.
- Interviews with key external service providers, as warranted (audit, custodian, etc.)

We will evaluate OPERS' policies, processes, oversight and related governance. We will consider how and whether the OPERS' framework has the ability to 1) identify risks; 2) respond to risks through escalation or the development of appropriate policies and procedures; and 3) assure that policies and procedures are implemented effectively.

Based on the information we obtain we will opine and compare to market and best practices the following:

1. Communication of portfolio information, including the types, levels, and appropriateness of risk in the individual investment portfolios and the funds overall
2. Policies and controls in place to ensure compliance with OPERS adopted standards
3. The process used to make the Board and key leadership aware of risk related to the approved asset allocation, including risk identification and escalation process procedures and report generation processes

## d. Custodian Policy

To perform an evaluation of OPERS' relationship with its custodial bank called for in the Scope of Audit, we will take a "start from scratch" approach, identifying the appropriate goals, objectives and client specific needs first and then conducting a review of the suitability of the existing custodian arrangement. To accomplish this, we will begin by reviewing the IPS and determining oversight requirements, structure to support liquidity, strategic objectives, and upcoming initiatives. Through the interview process we validate our understanding and obtain perspectives that will help inform us of the unique needs and circumstances of OPERS.

Once we have determined the current services being provided, we will provide recommendations that identify services we believe the custodian should be providing in light of OPERS' investment program. In developing this gap analysis, we will also draw on our knowledge of the services that comparable funds are receiving (many of whom are our clients) and the overall product offerings currently being provided by top tier custodian banks. The work our Trust and Custody group already does in this area allows us to more effectively and efficiently make our assessment because we are intimately familiar with each top tier custodian bank and the industry.

In evaluating the current custodian, we will consider the current custodian's experience with similar clients, the quality of operations in custody services, accounting and reporting/data processing, technology/electronic platform, and the importance of custody operations to the custodian's business. We will use these and other criteria to ensure that the custodian is the best match for OPERS' investment program.

We will take into consideration the operational risks faced by OPERS (including but not limited to headline risk, contract risk, regulatory risk, client support risk, systematic risk, trading risk, data management risk and security risk) and determine whether the current custodian is helping to mitigate these risks. Where gaps may exist, we will make recommendations for improvement. Given our extensive knowledge of the current market, the emerging trends within the industry, and OPERS' representations regarding the evolving direction of its investment program, we will also opine on whether the current custodian is equipped to meet the evolving practices and needs of OPERS.

As part of our review of custodian review, we will analyze the fees paid under the existing scope of services to determine reasonableness given the size and structure of OPERS' investment program and given the current marketplace and fees charged to comparable entities.

Finally, we will review the current custodian model—Ohio Treasurer as custodian and OPERS as the end-user of the custodial services. We are very familiar with the challenges of this model, as it is used by some of our current clients. We will compare this model to other public systems and best practices; highlighting strengths and weakness, including controls and oversight issues.

## 4. Legal Compliance

We understand that the ORSC does not anticipate a full compliance review; instead, it expects a review of the policies and governance practices that OPERS uses to ensure compliance and whether such policies and practices are sufficient, appropriate, and in line with best practices.

We will begin our review obtain a thorough understanding of the relevant state statutory and regulatory rules, IRS regulations applicable to OPERS. We will then determine whether there are processes in place to foster compliance with these requirements, who is, or should be, responsible for monitoring and reporting on compliance (e.g., legal counsel, internal audit), and whether the process is being carried out in a consistent, efficient manner. We will evaluate the use and role of internal and external legal counsel in the compliance process and advise on whether it is reasonable. We will then evaluate the process used by the OPERS compared to the compliance procedures used by comparable public funds. We will advise where the current practice is consistent with best practices and/or where enhancements are needed.

The adequacy of ethics training and disclosure will be addressed within the context of our review of the policies and processes OPERS has in place to monitor and guard against professional conflicts of interests.

## 5. Risk Management and Controls

To assess this subject, in addition to the document request, we will utilize a customized written questionnaire that will allow us to compile information in order to assess and compare OPERS' approach in relation to market and best practice. We will follow the written response with a series of on site or teleconference informational interviews with key OPERS personnel in order to clarify, expand upon, or otherwise complement information collected in the written response. On site reviews may include demonstrations of key processes or documents. In the aggregate, our information sources will include (but are not limited to) the following:

- Responses to our specific questionnaire
- Board, committee charters, and written policies as well as meeting packages, including any risk, valuation, and/or operating reports. These documents will include:
  - The investment policy statement
  - Operational processes and procedures manuals
  - Risk policies and procedures
  - Internal controls testing plans or reports (either internal or external or both)
  - Operational risk reports
  - Purchasing policy
  - Audited financial statements

Our interviews of key personnel, will include the following or equivalent roles: the Executive Director, CIO, Portfolio Managers, Head of Risk, Internal Auditor, Risk Manager, Head of Compliance, Chief Financial Officer, Chief Operating Officer, and additional finance and operations staff, as warranted. We will also interview key external service providers, as warranted (external auditor, custodian, etc.).

Our Investment Oversight and Review evaluation will include an assessment of the OPERS' policies, processes, its oversight and related governance. The evaluation will consider how and whether the OPERS' framework has the ability to (1) identify risks; (2) respond to risks through escalation or the development of appropriate policies and procedures; and (3) assure that policies and procedures are implemented effectively.

Our evaluation will include address the adequacy of:

1. Financial controls
2. Current accounting policies and processes
3. Reporting provided to the Board and any relevant committee(s)
4. The record-keeping system, and
5. The integrity of financial statements

## 6. IT Operations

Information technology systems that foster safety and security are essential to any public fund operation. It is essential for the technology and automated systems to meet the functional demands and needs of OPERS from a transactional, internal control and reporting standpoint. With these beliefs in mind, the following is our approach for assessing this category of the review.

In addition to the document request, we will provide OPERS with a written customized questionnaire that will allow us to compile information in order to assess and compare OPERS' approach in relation to market and best practice. We will follow the written response with a series of on site or teleconference informational interviews with key OPERS personnel in order to clarify, expand upon, or otherwise complement information collected in the written response. On site reviews may include demonstrations of key processes or documents. In the aggregate, our information sources will include (but are not limited to) the following:

- Responses to our specific questionnaire
- Charters, delegations of authority and board/committee meeting packages related to oversight of technology and technology reporting
- Operational process and procedures manuals
- Internal controls testing plans or reports (either internal or external or both)
- Operational risk reports related to IT
- IT policies and procedures, including:
  - Change Management procedures
  - Application and Hardware infrastructure framework and mapping
  - Business Continuity and Disaster Recovery plans
- Summary of external vendors
- Reports or summaries of any external reviews, including any penetration or vulnerability testing
- Breach logs or risk registrars
- Interviews with key personnel, including the following or equivalent roles: CIO, Head of Risk, Head of IT, and additional technology operations staff, as warranted.
- Interviews with key external service providers, as warranted (IT Consultants, etc.)

Our Investment Oversight and Review evaluation will include an assessment of the OPERS' policies, processes and its oversight. The evaluation will consider how and whether the OPERS' framework has the ability to (1) identify risks; (2) respond to risks through escalation; and (3) assure that policies and procedures are implemented effectively.

The evaluation will include address of the following elements and compare OPERS to market and best practice:

1. Application infrastructure development and maintenance
2. The adequacy of data management policies, including security and confidentiality of OPERS records systems, and whether such policies and processes foster compliance
3. Hardware infrastructure
4. Change management policies and procedures
5. Cyber and physical security policies and procedures
6. Business continuity and disaster recovery policies and procedures
7. The quality of IT operations and governance processes and controls
8. Areas of high risk and whether mitigating controls are used

***In describing your proposed methodology, also identify the type and level of assistance that you anticipate will be needed from the staff of PERS, including assistance to understand the operations and records of PERS 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 PERS.***

| | OPERS Assistance Required | Estimated Time |
|---|---|---|
| Entrance Conference | Prepare for and attend meeting to discuss/ clarify scope, methodology, document request, peer group, communication protocols | Two hours per attendee |
| Data Gathering | Completion of document request, DDQ, and systems testing | Forty person hours (presumes most data is electronically available and in searchable files) |
| Assistance with Scheduling of Meetings | Scheduling on-site and service meetings | Three to four person hours |
| Interviews | Meetings with Board members and key personnel and Vendors | Average one hour per interview; follow-up calls may be necessary to obtain additional information |
| Report review | Review and comments on draft and final report; presumes report will be reviewed individually and in group meeting | Three to six hours/reviewer (assumes that some reviewers will read the entire report and others will only focus on the sections related to their operations) |
| Space Needs | Conference Room to Accommodate 6–8 People | Two to three days |

***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.***

See hyperlinks provided in the descriptions of the fiduciary review projects identified in Section II above.

***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. This may be expressed as time after start of contract (i.e., "1 week after contract start date," "4 weeks after contract start date"), rather than specific calendar dates.***

A sample of the proposed timeline is on the following page.

## Sample Proposed Timeline

The timeline provided below presumes a six-month time frame. Our ability to meet the proposed timeline is subject to OPERS and ORSC availability.

| Proposed Timeline In Weeks (presumes 6 months) | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Weeks** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** | **16** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** |
| **Steps to Complete Audit Scope** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Monthly Status Meetings** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Entrance Conference—On-site following contract execution** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Submission of document request & ODD questionnaires** | | | | | | | | | | | | | | | | | | | | | | | | |
| **OPERS responds to document request & questionnaires** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Information gathering** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Conduct on-site interviews with OPERS Board & staff** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Verification of facts and circumstances** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Comparison and analysis** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Formation of initial recommendations & preparation of draft report** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Submission of draft report to OPERS** | | | | | | | | | | | | | | | | | | | | | | | | |

| Timeline In Weeks (approximately 6 months) | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Weeks** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** | **16** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** |
| **Steps to Complete Audit Scope** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Discussion of OPERS comments** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Revise any inaccuracies** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Submission of draft report to ORSC** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Discussion of ORSC comments** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Finalize report** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Submission of Final report** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Presentation** | | | | | | | | | | | | | | | | | | | | | | | | |

Using the sample proposed timeline above, assuming a start date of January 9, 2018, interviews would be held on approximately March 6–7, 2018 and the final report would be submitted on or about July 18, 2018. AHIC's ability to meet dates established in a timeline is contingent upon the client's ability to also meet established dates.

# 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.***

## Overview of Fiduciary Services Practice

**Solution**

- AHIC's Fiduciary Service ("FS") practice provides reviews designed to identify, prevent or mitigate fiduciary risk – may be comprehensive or limited in nature.
- Plan Fiduciaries are judged by the prudence of their process; so, FS helps boards and committee's to assess, document, and enhance the policies and practices and help ensure they align.
- A significant focus of Fiduciary Services is an organization's governance, meaning how fiduciaries exercise their authority; including the decision-making framework, and how decisions and processes are documented, implemented and monitored.
- Fiduciary Services routinely compares an organization's practices to industry common and best practices.
- 6 major services :
  - Fiduciary Reviews
  - Governance Diagnostic
  - Fiduciary and/or Governance Training
  - Policy Development
  - Strategic Planning
  - Self-assessments

**Our Success**

- AHIC has a dedicated team in the Fiduciary Services practice that provides services beyond traditional investment consulting. It's a differentiator for AHIC.
- Have successfully conducted fiduciary reviews across dozens of organizations.

**Benefits of Fiduciary Service**

- Findings and recommendations are based upon informed, independent, objective judgment of recognized industry professionals
- The breadth and depth of the scope of service for a project is dictated by the client
- Tangible and intangible benefits often include: cost savings, adoption of "good governance" practices, enhanced stakeholder confidence, risk mitigation, knowledge of common and best practices*

*"Good Governance Adds Value", a study published by Rotman International Journal of Pension Management, found that better governed pension funds outperformed poorly governed funds by 2.4% per annum during the 4-year period ending 12/2003.

**Ideal Client Characteristics**

- Proactive plans, that understand the benefits and seek to implement "good governance"
- Plans under attack
- Plans that want to know the common and best practice
- Documentation update
- Recent board or staff changes
- Buyers: Oversight entities; public and private DB and/or DC plans, investment trusts, endowments, and foundations

Aon Hewitt | Retirement and Investment | Investment Consulting | Fiduciary Services
Proprietary & Confidential | July 2017

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20170918-262825

Empower Results®

AHIC often serves as the advisor to top advisors. For example, KPMG retained AHIC Fiduciary Services, through a competitive process, to evaluate the investment-related governance framework and practices used for KPMG's six (6) qualified pension and savings plans and make recommendations for enhancements based on the common and best practices of similar organizations. The scope of services included the governance framework used for decision-making, the roles of the staff supporting the plan's investment program (including staffing size, qualifications, and skillsets; the level of authority and appropriateness of delegations, etc.) and the communication protocols used to convey information to participants. The report was presented to the KPMG LLP Board Compensation and Pension Committee. We have included a description of the project here because we have used KPMG as a reference. We encourage you to call this reference.

As noted earlier, in addition to the fiduciary reviews we perform, we provide fiduciary and governance services to a number of clients. The following is a Fiduciary Services practice representative client list.

## Project and Retainer Services

| Representative Client List | |
|---|---|
| ▪ Allstate* | ▪ Los Angeles City Employees' Retirement System |
| ▪ California Public Employees' Retirement System | ▪ Los Angeles City Joint Administrators |
| ▪ California State Teachers' Retirement System* | ▪ Maine Public Employees Retirement System |
| ▪ California Value Trust | ▪ Missouri Department of Transportation and Highway Patrol Employees' Retirement System |
| ▪ Casey Family Programs | ▪ Nebraska Investment Council* |
| ▪ City of Ann Arbor Employees' Retirement System | ▪ New Hampshire Retirement System |
| ▪ City of Phoenix Employees' Retirement System | ▪ New Mexico Legislative Council Service |
| ▪ Colorado Public Employees Retirement Association | ▪ North Carolina Department of State Treasurer |
| ▪ Denver Employees Retirement Plan | ▪ North Dakota Board of Investments |
| ▪ Federal Thrift Retirement Investment Board | ▪ Pennsylvania Public Schools Retirement System* |
| ▪ Fire and Police Pension Association of Colorado | ▪ Public Company Accounting Oversight Board |
| ▪ Fort Worth Employees' Retirement Fund | ▪ State Board Administration of Florida |
| ▪ Houston Municipal Employees Pension System | ▪ State of Wisconsin Investment Board* |
| ▪ Illinois Municipal Retirement System* | ▪ Texas Municipal Retirement System |
| ▪ Kentucky Teachers' Retirement System | ▪ Tennessee Valley Authority Retirement System* |
| ▪ KPMG | ▪ WEA Insurance Corporation |
| ▪ Knight Foundation | ▪ Wisconsin Department of Employee Trust Funds |

Depicts a representative list of AHIC's Fiduciary Services clients, current and prior, as of September 30, 2017. *Please note, as required by investment industry rules, it is not known whether clients listed approve or disapprove of AHIC or the advisory services provided.*

*Denotes current clients.

# 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.***

| Abbreviations, Acronyms, and Technical Terms | Description |
|---|---|
| ACIA | Aon Center for Innovation and Analytics |
| AHIC | Aon Hewitt Investment Consulting |
| ALM | Asset-Liability Management |
| ASI | Aon Securities |
| ATC | Aon Trust Company |
| ARS | Aon Risk Solutions |
| BC/DR | Business continuity/disaster recovery |
| CalPERS | California Public Employees Retirement System |
| CalSTRS | California State Teachers Retirement System |
| CFA | Chartered Financial Analyst—designation attained from the CFA Institute |
| CIO | Chief Investment Officer |
| CFTC | Commodity Futures Trading Commission |
| EK | Ennis Knupp—predecessor firm to HEK |
| FINRA | Financial Industry Regulatory Authority |
| GIM | Aon Hewitt Global Investment Management |
| HEK | Hewitt Ennis Knupp (predecessor firm to AHIC) |
| IPS | Investment Policy Statement |
| IT | Information Technology |
| KTRS | Teachers Retirement Systems of Kentucky |
| LSC | New Mexico Legislative Council Service |
| NC | North Carolina Department of State Treasurer |
| NDA | Non-Disclosure Agreement |
| NFA | National Futures Association |
| ODD | Aon Hewitt Operational Due Diligence |
| OCIO | Outsourced Chief Investment Officer |
| OPERS | Ohio Public Employees Retirement System |
| PERS | Ohio Public Employees Retirement System |
| SEC | U.S. Securities and Exchange Commission |
| 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.***

| Proposed Review Team | Category 1<br>Board Governance | Category 2<br>Organizational Structure & Staffing | Category 3<br>IPS & Oversight | Category 4<br>Legal Compliance | Category 5<br>Risk Management & Controls | Category 6<br>IT Operations | Total Hours/ Team Members |
|---|---|---|---|---|---|---|---|
| Jeanna Cullins, FS Project Manager | 100 | 50 | 8 | 50 | 5 | 5 | 218 |
| Rian Akey/ODD | 40 | | 70 | | 65 | 100 | 275 |
| Phillip M. Kivarkis/ IPS | | | 50 | | | | 50 |
| Greg Korte/Custody | | | 50 | | | | 50 |
| Michael Oak/ MaLagan | | 120 | | | | | 120 |
| Michael W. McCormick/IC | | | 80 | | 40 | 46 | 166 |
| Griffin Keenan/ODD | | | 70 | | 60 | 65 | 195 |
| Chris Foster/Custody | | | 70 | | | | 70 |
| Janet Callion, FS | 60 | 22 | 2 | 30 | 2 | 2 | 118 |
| **Total Hours for Team** | | | | | | | **1,262** |
| A. Estimated Total Hours[1]/ Category | 200 | 192 | 400 | 80 | 172 | 218 | |
| | | | | | | | |
| B. Hourly Rate | Blended Hourly Rate = $500 | | | | | | |
| A × B = Fee/Category | $100,000 | $96,000 | $200,000 | $40,000 | $86,000 | $109,000 | |
| Total for All Categories | | | | | | | $631,000 |
| Estimated Travel Costs | Assumes 8 team members will meet on-site for two days, with an overnight stay, and 4 members will present the final report. | | | | | | $6,000 |
| **Total Fee** | | | | | | | **$637,000** |

[1] Project management time, interviews, report drafting, comment review, finalization, and report presentation are included in total hours.

# Appendix

# Form ADV, Parts 2A and 2B

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**Form ADV, Part 2A**
**Firm Brochure**

# Aon Hewitt Investment Consulting, Inc.

200 E. Randolph St., Suite 1500

Chicago, IL 60601

Phone: 312.381.1200

**www.aonhewitt.com/investmentconsulting**

Dated: June 9, 2017

This brochure provides information about the qualifications and business practices of Aon Hewitt Investment Consulting, Inc. ("AHIC"). If you have any questions about the contents of this brochure, please contact the AHIC Compliance Department at 312-381-1200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC"), the Commodity Futures Trade Commission ("CFTC"), the National Futures Association ("NFA") or by any state securities authority.

Additional information about Aon Hewitt Investment Consulting, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Please note that registration as an investment adviser with the SEC, a commodity pool operator and commodity trading advisor with the CFTC, or being a member of the NFA does not imply any certain level of skill, training or ability with respect to the provision of investment advisory services.

## Item 2: Material Changes

This section of Aon Hewitt Investment Consulting, Inc.'s Brochure ("Brochure") is intended to discuss and identify material changes that are made to the Brochure since our last annual update on March 30, 2017.

We will deliver to our clients, a free annual updated Brochure that includes a summary of any material changes that are made to this and subsequent Brochures within 120 days of the close of our fiscal year. If you would like to request a copy of the most recent Brochure at any time, please contact Aon Hewitt Investment Consulting, Inc. at 312-381-1200.

Item 4 – Advisory Business, Item 8 – Methods of Analysis, Investment Strategies and Risk and Item 10 – Other Financial Industry Activities and Affiliations: removed Simplus

Item 6 – Performance-Based Fees and Side-by-Side Management: added additional disclosure related to the ability of third-party funds or sub-advisors to charge performance-based fees separate from AHIC.

Item 10 - Other Financial Industry Activities and Affiliations: removed Aon Financial Advisors LLC ("AFA") and Hewitt Financial Services, LLC ("HFS") as AHIC affiliates.

## Item 3: Table of Contents

## Item 4: Advisory Business

Aon Hewitt Investment Consulting, Inc. ("AHIC") is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”); a Commodity Pool Operator (“CPO”) and a Commodity Trading Advisor (“CTA”) registered with the Commodity Futures Trade Commission (“CFTC”); and is a member of the National Futures Association (“NFA”) with its principal place of business located in Chicago, Illinois.

AHIC provides professional investment advisory and consulting services to public pension funds, endowments, foundations, not-for-profit organizations, corporate pension funds, defined contribution plans, insurance companies and registered investment advisers/wealth managers. In 2010, subsequent to the merger of Ennis Knupp & Associates, Inc., Hewitt Investment Group, LLC and Aon Investment Consulting, Inc., the business began operating under the name of Hewitt EnnisKnupp, Inc. In January 2015, Hewitt EnnisKnupp, Inc. changed its legal business name to Aon Hewitt Investment Consulting, Inc. AHIC is wholly owned by Aon Consulting, Inc., an indirect subsidiary of its ultimate parent Aon plc. AHIC operates under the Aon Hewitt (“Aon Hewitt”) business umbrella of Aon plc.

AHIC provides both non-discretionary investment advice and discretionary investment solutions (including Outsourced Chief Investment Officer (“OCIO”)) and actuarial services to clients on many matters related to their investment programs and operations, including:

- Investment Policy Planning and Asset Allocation;
- Manager Structure and Selection;
- Performance Review and Manager Monitoring;
- Fiduciary Services;
- Alternative Asset Advisory Services;
- Delegated Investment Solutions and Pension Risk Management;
- Annuities Placement Solutions;
- Ad Hoc Projects; and
- Bespoke Services.

More information on each of the above services is provided below. As an extension of the services listed above, AHIC offers related services including defined contribution services, master trustee/custodian evaluation, and asset transition services. We also have considerable experience in formulating spending and investment policies for foundations and endowments. In addition, we provide delegated asset management for defined benefit (pension) plans.

Investment Policy Planning and Asset Allocation

We help clients to:

- Define and control risk for their specific requirements;
- Diversify their investment portfolio;
- Develop investment objectives and a statement of investment policy;
- Meet cash flow needs; and
- Conduct scenario analysis on their portfolio(s) as well as alternatives portfolios.

Our **Investment Policy Services** and **Global Asset Allocation Teams (“Teams”)** are composed of investment professionals with backgrounds in investment management, economics, and actuarial science including actuaries, economists, and investment consultants. These Teams are responsible for maintaining AHIC’s “house” investment views and capital market assumptions. These Teams also provide timely, proactive advice and research to our investment consultants regarding the potential investment implications of changes in capital markets. Additional responsibilities include coordinating with AHIC investment consultants to provide AHIC clients with top-down, strategic investment advice, researching new investment strategies, and monitoring portfolio positions from an asset allocation perspective.

Certain plan sponsors hire us to construct a dynamic “de-risking” glide path to help bring the plans to a fully funded status, while reducing uncompensated risks, with the goal of reducing the economic cost of plan benefits. The dynamic “de-risking” glide path is directly incorporated into the client’s investment policy to formalize the strategy, permit execution, and seek to ensure the highest levels of governance.

The **Institutional Advisory Services (“IAS”)** team provides non-discretionary model portfolios (“Model Portfolios”), strategic asset allocation advice and related advisory services to certain institutional and retail non-affiliated advisory firms, including certain open-end mutual fund companies and wrap program sponsors in connection with third-party wrap fee programs.

We do not sponsor any “wrap-fee” programs, but we may participate as a non-discretionary sub-adviser in wrap-fee programs. Under these arrangements, we provide Model Portfolios containing our current investment recommendations based on our clients’ investment policy statement and strategy goals or other parameters as agreed to between AHIC and our client. Although we provide recommendations, we do not have the authority to implement those recommendations. Ultimately, the decision making and discretionary responsibility for the asset allocation and securities selected are those of our client. Our client also maintains responsibility for effecting all security transactions in connection with such determinations. There may be differences between the Model Portfolio and the portfolios managed by our client and its other clients. We receive a fee from our client as an investment adviser for the services provided in these programs.

The team also is responsible for managing risk in general, including: performing asset-liability analyses, designing custom interest rate risk management portfolios utilizing derivatives, and monitoring portfolio positions from an asset-liability perspective.

Manager Structure and Selection

Our **Global Investment Management Team (“GIM Team”)** consists of individuals dedicated to researching and evaluating investment managers worldwide. Our GIM Team monitors and rates investment managers’ strategies. The GIM Team includes a number of former fund managers, which we believe provides further insight for understanding managers.

The GIM Team identifies investment managers and strategies across equities, fixed income, real estate equity and debt, private equity and debt, and alternative asset classes for our clients, and conducts periodic due diligence on existing buy-rated managers in client portfolios.

The GIM Team works with the AHIC investment consultants to periodically review the number and types of managers, funds and separate account strategies used by clients paying careful attention to efficiency, costs, and management oversight. Further, the GIM Team’s due diligence process is leveraged by its discretionary and non-discretionary advisory teams to include screening, interviewing, and selecting manager candidates that meet each client’s needs. Observations from this research are summarized within written manager guidelines and performance objectives reports.

In certain circumstances, clients may delegate to AHIC the authority to allocate assets and hire or fire managers. Please see the section on our delegated services below.

Performance Review and Manager Monitoring

The GIM Team conducts ongoing discussions and periodic on-site due diligence meetings with certain investment managers that meet GIM's rating criteria. Additionally, the GIM team will conduct periodic reviews of clients' investment managers upon request, focusing on investment performance and organizational issues such as changes in ownership, retention of professional staff, fee changes, new products, etc. We evaluate all managers in the context of their objectives and guidelines and specifically comment on factors effecting performance. We inform our clients of important developments and, when appropriate, recommend changing managers.

Fiduciary Services

Our **Fiduciary Services Team** works with clients and provides fiduciary oversight reviews to help them meet their fiduciary responsibilities. These services are provided to both public and private pension sector entities, and in most cases, are a separate retainer-based solution distinct from other AHIC investment consulting practices. Our fiduciary services include:

- Strategic planning;
- Fiduciary audits and operational reviews;
- Client and fiduciary training;
- Board/Committee governance and self-assessment; and
- Ad hoc projects.

*Strategic Planning*

We assist in the design of strategic plans and development of mission statements and core values as well as reasonable and achievable goals and objectives. We also assist in the implementation of the plans and the evaluation of their success.

*Fiduciary Audits and Operational Reviews*
We review the client's policies and procedures to assess their effectiveness and appropriateness and provide recommendations for improvement. These reviews may include:

- Investment portfolio objectives, asset allocation, and policy;
- Investment operations and processes;
- Board oversight, policies, and principals; and
- Organization, staffing structure, and policies.

We will create a report of findings and recommendations for delivery to the governing body and assist the client in selecting trustees and recordkeepers for fiduciary accounts.

*Client and Fiduciary Training*
Our educational offerings include:

- Written reports that provide background information, alternatives and recommendations (along with the rationale for the recommendations) on a given issue;
- Research or educational materials on topics to discuss with a client's staff or committees;
- A client conference that covers a variety of investment-related topics.

*Board/Committee Governance*
We assist clients to develop governance manuals, policies, procedures, and monitoring methods appropriate to their oversight responsibilities and reporting structure. We also provide services to support our clients' administration of their fiduciary requirements, such as maintaining meeting minutes and compliance calendars, and assist with board/committee self-assessment.

Alternative Asset Advisory Services

Our **Global Hedge Funds, Private Equity** and **Real Estate Teams (the "Global Alternatives Team")** are part of the GIM Team discussed above. The Global Alternatives Team is responsible for maintaining qualitative assessments on alternative asset manager strategies and keeping abreast of the conditions in these markets.

We provide both non-discretionary and discretionary investment advisory services on partnership interests in private equity, real estate, venture capital arrangements, hedge funds, leveraged buyout funds, and distressed securities funds.

With the exceptions of mutual funds, exchange traded funds, and non-public securities, we do not typically provide advice or recommendations on specific securities investments. In designing a client's investment policy, we will typically consider many types of investments, unless instructed by the client to limit our advice to particular sectors or industries. Our investment recommendations are not limited to any specific product or service offered by any particular broker-dealer or insurance company.

Because some types of alternative investments involve an additional degree of risk, alternative investment strategies will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

Hedge Fund Advisory Services

We develop, expand and monitor our clients' asset allocation structures in opportunistic strategies (e.g., real and absolute return, global tactical asset allocation, long/short equity including market neutral and 130/30 style funds, commodities, convertible arbitrage and funds-of-funds). We seek to integrate our understanding of each of our client's goals, risk tolerances, and risk qualities of existing portfolio with our extensive manager research and monitoring capabilities. Our approach is to take a broad perspective on this opportunity set covering not only a wide variety of hedge funds, but also those strategies that use "hedge fund like" approaches to investing. We conduct both on-site and telephonic manager meetings annually with a due diligence process that includes a robust examination of investment strategy, fund leadership and operational due diligence.

We also provide institutional investors with a hedge fund investment risk monitoring and implementation platform that allows for hedge fund investing with increased transparency. This service allows us to provide holdings level transparency, IMA guideline monitoring, risk oversight and integrated risk reporting, as well as collectively negotiate management fees for our clients.

Private Equity Advisory Services

We review and develop a client's private equity investment policy, asset allocation, and portfolio design. We conduct global private equity fund selection and due diligence reviews within each sub-sector. In addition, we coordinate the engagement of outside counsel for our clients so that limited partnership agreements are reviewed by legal professionals. Then, we will negotiate terms and conditions on behalf of each client. We provide clients with performance reporting, portfolio analysis, and comprehensive portfolio company review. We are able to educate clients on secondary sale processes and evaluate their portfolio construction decisions. We provide private equity education and market analysis, including commentary on current issues. We recommend commingled private equity investment funds as well as separate accounts that are structured and classified to meet client needs.

Real Estate Advisory Services

We consult with our clients to develop their real estate portfolio investment objectives, programs, and policies. Our real estate investment strategic planning and implementation services include:

- Investment pacing, size, and investment strategy diversification;
- Investment vehicle analysis and planning;
- Property and portfolio leverage planning;
- Manager search, selection and monitoring;
- Performance measurement and attribution analysis;
- Topical real estate research and market analysis; and
- Transition structure and terms modeling, analysis, and fee negotiations.

Discretionary Investment Solutions and Pension Risk Management

Through our discretionary advisory team (a.k.a “Delegated” or “delegated services”), we design and manage certain institutional clients' investment portfolios. For these client relationships, we are delegated the authority to hire investment managers, terminate investment managers, select investment funds, and rebalance portfolio assets, subject to the client's investment policy statement and other terms outlined in the investment consulting agreement. Please see Item 16 for more information about our delegated services.

Certain plan sponsors hire us to construct a dynamic “de-risking” glide path to help bring the plans to a fully funded status, while reducing uncompensated risks, with the goal of reducing the economic cost of plan benefits. The dynamic “de-risking” glide path is directly incorporated into the client’s investment policy statement to formalize the strategy, permit execution, and seek to ensure the highest levels of governance. In setting the glide path, we use a customized liability measure reflecting the client’s desired objectives:

- *Potential Reduction in Economic Cost*: In many cases, the dynamic “de-risking” glide path, daily monitoring, and swift execution of the preapproved glide path may reduce the plans’ economic costs over time by reducing uncompensated risks and volatility.

- *Improve Probability of Reaching 100% Funded While Decreasing Risk*: The goal of the glide path is to seek to improve the probability of reaching 100% funded while protecting the downside risk.

- *Executing “Real-time”*: AHIC’S daily monitoring capabilities are key to implementing a dynamic “de-risking” glide path. We take discretion for the selection, implementation, and replacement of investment managers to execute a client’s dynamic policies. This results in a reduction in decision cycle times and a disciplined execution of plan strategies, which seeks to improve benefit security to plan participants, and in many cases, delivers lower economic cost and volatility to plan sponsors.

Our **Delegated Investment Team** is dedicated to the development, implementation and execution of our best thinking for our clients. This solution also utilizes “Buy Rated” investment manager strategies, which are researched by AHIC’s GIM Team, as referenced above. The Delegated Investment Team utilizes a variety of tools and providers that seek to pursue the highest quality strategies available in the market.

Our **Delegated Portfolio Management Team** leverages the expertise of dedicated individuals with backgrounds in investment management and actuarial science. The team is responsible for managing risk in general, including: performing asset-liability analyses, designing custom interest rate risk management portfolios utilizing derivatives, and monitoring portfolio positions from an asset-liability perspective.

Certain AHIC clients that receive non-discretionary investment advisory services may also have a portion of their portfolio managed by the Delegated Investment Team, or provided in connection with AHIC's Delegated Investment Solutions ("DIS"). AHIC provides non-discretionary (3(21) ERISA) advisory services with respect to certain AHIC clients, and also exercises discretionary management authority (3(38) ERISA) delegated services with respect to a portion of these client's portfolios.

As part of our discretionary management services, we may invest our clients in AHIC-affiliated private funds and/or collective funds. While the investment in AHIC private funds or collective funds is not a requirement of our discretionary services, AHIC believes that it has the ability to offer scaled pricing to its clients by investing into affiliated private funds or collective funds, which may not be available through the use of separate accounts or other unaffiliated commingled vehicles. Typically, AHIC will charge for its advisory services separate from an investment in an AHIC-affiliated fund, except for clients who invest in ATC's collective investment trust may choose to pay AHIC's investment advisory fee directly from CIT assets.

AHIC's non-discretionary investment advisory services will not include evaluations or recommendations on DIS when clients make the determination to delegate a portion of their portfolio to DIS. Furthermore, the GIM Team will not perform monitoring or due diligence of the discretionary portfolio management or private funds managed by DIS, as these activities are performed on at least a quarterly-basis by a team managed by Delegated's US Chief Risk Officer. The non-discretionary and discretionary solutions are performed by separate and distinct teams within AHIC. The non-discretionary team will remain responsible to perform fiduciary oversight of the client's entire portfolio, and make independent recommendations to their client on the services performed by DIS.

<u>Annuities Placement Solutions</u>

Our **Annuities Placement Solutions Team** leverages the expertise of dedicated individuals with backgrounds in insurance, risk management, actuarial science and finance. The team has extensive experience assisting clients in selecting annuity providers using the protocol established by the Department of Labor in its Interpretive Bulletin No. 95-1 dealing with the selection of the "Safest Available Annuity Provider."

The team specializes in implementing annuity arrangements for terminating defined benefit plans as well as partial settlements for ongoing plans. We evaluate the need for guaranteed interest contracts; and assist clients in evaluating and understanding these pension investment alternatives. Guaranteed interest contracts are agreements issued by an insurance company that provide interest over a specified, agreed-upon time period. They are commonly considered by plan fiduciaries in defined benefit plans as an alternative to fixed income or indefined contribution plans as an investment for participants seeking principal preservation.

<u>Ad Hoc Projects</u>

We provide some of the services described above (for example, policy consulting, manager selection and governance) on a project basis. We also provide the following services on a project basis:

- Investment Program Review
- Defined Contribution Services (e.g., Vendor Evaluation and Fee Benchmarking)
- Custodian Selection
- Manager Agreement Review
- Asset Transfer Oversight (at client direction)

- Asset Liability Studies
- Recordkeeper Selection

Bespoke Services

We allow clients to customize their investment portfolio to their needs and goals, such as by imposing reasonable investment restrictions on certain securities, industries or sectors; managing a portfolio to a tax-efficient mandate; or by providing us with written instructions when opening an account or at any time thereafter.

Amount of Managed Assets

As of December 31, 2016, we had approximately $67.4 billion of assets under management on a discretionary basis and $1.3 billion in assets on a non-discretionary basis.

## Item 5: Fees and Compensation

AHIC does not have a standardized fee or uniform fee schedule. Fees for our asset management services may be charged as a percentage of assets in the client's account. Consulting services may be charged as an hourly fee or as a flat fee. The nature of our proposed relationship with our client is considered in determining the fee structure for our client's account. Fees may vary between clients due to various factors, including, but not limited to, the type and size of the account, the range of additional services provided to the client and the total amount of assets managed for a single client. While we believe our fees are competitive and reasonable, there may be instances where similar services to those provided by us may be available for similar or lower fees from other sources. All fees are negotiated in advance and will vary depending on a number of factors, including:

- Complexity of the assignment;
- Scope of work
- Number of plans;
- Number of investment managers; and
- Nature and frequency of meetings and reports.

The fees charged for the investment advisory services are specified in the agreement between AHIC and each client. AHIC's fees do not include trustee fees, custody fees, sub-advisory fees, brokerage commissions, transaction costs, mutual fund expenses, or other fees a client may incur.

Asset-Based Fees

Asset-based fees typically range from 0.01% to 0.10% of assets we advise on a non-discretionary basis. Asset-based fees typically range up to 0.45% of assets we manage on a delegated/discretionary basis. These fees are typically billed quarterly, in arrears, calculated on the value of assets in the account at the end of each calendar quarter and invoiced to the client.

Hourly Fees

Hourly fees typically range from $200 - $800 per hour depending on the service rendered and are billed monthly, in arrears, based on actual hours rendered to a client account and invoiced directly to the client.

Retainer Fees

Retainer fees typically range from $75,000 to $500,000, and are either billed quarterly, in arrears, or in installments negotiated with the client for the duration of a particular project.

GENERAL INFORMATION ON FEES

Negotiability of Fees: Although we have established the fee ranges reflected above, we retain the right to negotiate fees or waive fees on a client-by-client basis.

Fee Calculation: The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client (Section 205(a) (1) of the Investment Advisers Act of 1940, as amended).

Termination of Advisory Relationship: Typically, a client may terminate its advisory relationship at any time upon no more than 30 days prior notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded to the client, and any earned, unpaid fees will be due and payable. Such fees are prorated based on the number of days left in the billing period.

Pooled Investment Vehicles: We serve as the investment adviser to Aon Hewitt Group Trust (“AHGT”), Aon Hewitt Offshore Fund of Hedge Funds, Ltd. (“AHFoHF”) and Aon Hewitt Institutional Funds (“AHIF”). The fees relating to the funds are described in each respective Private Offering Memoranda and Supplement(s).

Collective Investment Trusts: We serve as the investment adviser to Aon Hewitt Collective Investment Trust (“AHCIT”). The fees we receive from AHCIT relating to the funds are described in the fund’s Offering Statement. Certain clients may prefer to pay AHIC’s advisory fees directly from the CIT, which is further described in the fund’s Offering Statement.

Investment Advisory Fees and Expenses: AHIC’s investment advisory fees, both for consulting and discretionary asset management, are separate and distinct from fees and expenses charged by our client’s investment managers (mutual funds, collective investment trusts, separate account managers, as well as the sub-advisors we choose or recommend to manage assets on behalf of the AHGT, AHFoHF, AHIF or AHCIT).

The fees and expenses related to the investment management firms unrelated to AHIC are described in each fund's prospectus, in the case of mutual funds, or other disclosure materials, in the case of the other types of managers.

Custody and Brokerage Fees and Expenses: Clients should note that our investment advisory fees are separate from custody and brokerage charges that may be assessed by third parties, including Bank of New York Mellon (when investing in the AHGT, AHFoHF, AHIF). Please see *Item 12 – Brokerage Practices* and *Item 15 – Custody* for more information.

Limited Prepayment of Fees: Clients may prepay our fees in advance. However, under no circumstances do we require or solicit payment of fees in excess of $1,200 more than six months in advance of services rendered. See Termination of Advisory Relationship above regarding return of any unearned advisory fees.

Affiliated Sales Activity: A limited number of AHIC employees are also affiliated with Aon Securities, Inc. (“ASI”), which is a registered broker-dealer and our affiliate. Their affiliation with ASI relates solely to their services with respect to distribution of interests in the AHGT, AHFoHF, and AHIF. Although affiliated with ASI, our representatives receive no compensation from ASI or from clients for these services. We do reimburse ASI for expenses it incurs in connection with our consultants' affiliation.

Additionally, AHIC employees also offer interests in the Aon Hewitt Collective Investment Trust ("CIT"), which is collective investment vehicle of Aon Trust Company ("ATC") and an affiliate of AHIC.

<u>Mutual Funds</u>: The investment advisory fees that we receive for services provided by our IAS team as a non-discretionary sub-advisor to unaffiliated mutual funds, which are registered under the 1940 Act, are described in the registration statements and/or financial filings of those mutual funds, including those funds' prospectuses.

<u>Global Investment Manager Database</u>: Investment advisers do not pay a fee to AHIC (or otherwise compensate AHIC or its affiliates) to be included in AHIC's Global Investment Manager ("GIM") database. AHIC, nor its any of its affiliates, charge any investment adviser to be reviewed, evaluated, recommended or selected by AHIC for any of its clients.

Occasionally, AHIC provides investment consulting services to an investment management firm specific to its employee retirement plan. AHIC may be compensated for these services by those investment managers consistent with the advisory fees described within this section. Further discussion related to these services can be found under *Item 10 – Other Financial Industry Activities and Affiliations.*

## Item 6: Performance-Based Fees and Side-By-Side Management

Currently, AHIC does not charge performance-based fees. However, there may be certain of AHIC's affiliated funds whose underlying third-party funds or sub-advisors charge performance-based fees. AHIC may also invest client assets directly in third-party investment vehicles and/or third-party funds that may charge a performance-based fee.

"Side-by-Side management" refers to the simultaneous management of multiple types of client accounts/investment products. AHIC and its sub-advisors manage many accounts with a variety of strategies, which may present a conflicts of interest. AHIC utilizes a customized investment advice platform where individual recommendations are provided to each client and are not applied holistically across all clients. In advising other clients, we may give advice and make recommendations to such clients, which may be the same, similar to or different from those provided to other clients due to different client investment objectives and strategies. Clients should be aware that AHIC's sub-advisers do at times sell or hold short positions in securities for one or more client accounts while purchasing or holding long positions in the same or substantially similar securities for other client accounts. AHIC conducts due diligence on its sub-advisers' policies and procedures to ensure that appropriate trade allocation and execution policies are established.

## Item 7: Types of Clients

AHIC provides investment advisory services to banking or thrift institutions, pooled investment vehicles, pension and profit sharing plans, not-for-profit, charitable organizations, corporations, government entities, investment companies, collective investment trusts, and endowments and foundations.  We also serve hospital systems, Taft-Hartleys, family offices, insurance companies, and other public and private entities.

## Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

We advise clients on broad investment objectives and the selection and monitoring of advisers and/or investment managers. Clients should refer to the disclosure documents of recommended advisers and investment managers for information on their methods of analysis, sources of information and investment strategies.

AHIC's GIM Team focuses the majority of its research on qualitative assessment, striving to thoroughly understand the organizations and teams that are responsible for investment performance.

The focus of the qualitative criteria includes:

- Special emphasis placed on understanding the incentive structure and team dynamic to determine the likelihood of team stability and long-term performance;
- Skill level, interpersonal skills and attitudes of the general partners;
- The quality of the group's deal flow with respect to intrinsic quality and competition for the opportunities;
- The due diligence and decision-making process employed by the group when it makes investments in companies, among others.

In addition, the GIM Team focuses on obtaining a thorough understanding of the research and investment process. In doing so, it is our belief that we are able to effectively evaluate periods of relative performance deviations thereby allowing for valuable proactive consulting for clients rather than a chasing performance mentality that plagues many investors. To truly understand investment management firms, it is the our belief that time must be spent face-to-face with the people at these organizations to determine their talent and commitment to client results.

Our researchers also spend a lot of time quantitatively analyzing managers. The quantitative analysis is not performance screening to find hot managers; instead, the team utilizes a variety of proprietary and third-party databases to measure risk and performance to better understand *how* a product performs and if it is in line with the style of management it pursues. The team runs portfolio attribution at the holdings level in an attempt to better understand drivers of results and challenge portfolio managers on their research and portfolio positioning. The GIM Team's manager evaluation process assesses each manager's:

- Perceived skill;
- Fund size/competing accounts;
- Cost;
- Team;
- Performance evaluation;
- Product fit;
- Attractiveness of targeted stage;
- Strategy;
- Ownership and sharing of carried interest;
- Stability of team;
- Quality and depth of management;
- Culture; and
- Quality of service.

The quantitative criteria that are calculated and evaluated include internal rates of return, cash flow multiples, and distributions which are benchmarked across a number of variables including fund type.

By evaluating these quantitative measures, the team gains a better understanding of how a manager may perform in a certain environment or how well a manager should fit within a portfolio context. Furthermore, an ongoing evaluation of qualitative and quantitative characteristics helps to evaluate if a manager continues to fit the role for which it was originally hired.

This dual evaluation allows the GIM Team to give clients a clear and accurate picture of our opinion on the investment managers and their strategies. Five areas of focus are extensively probed: organization, investment teams, investment process, risk considerations, and performance. This is accomplished via an on-site interview process conducted by multiple researchers.

Investment Strategies

To meet the wide variety of investment requirements of our clients, we offer customized investment solutions that implement our best thinking by investing client assets in affiliated commingled funds and/or funds or separate accounts managed by unaffiliated sub-advisers.

For our IAS solution, we build model portfolios based on our best thinking and analyses in accordance with clients' investment policy guidelines. With this solution, our clients are responsible for all portfolio trading, monitoring and operational aspects of implementing the model portfolios.

Our clients should not assume that portfolio investments will be profitable. The results for individual client portfolios will vary depending on market conditions and the portfolio's overall composition. Our clients' portfolios invest in securities; all investments carry a certain degree of risk, including the possible loss of principal that clients should be prepared to bear. There is no assurance that a client's portfolio will achieve its investment objective or that any investment will provide positive performance over any period of time.

We also sponsor several private funds. AHIC's private funds are available to certain sophisticated investors.

Risks

Please refer to the offering memorandum and supplement documents of the private funds offered by AHIC for the list of Risk Factors specific to each of the funds. There are a variety of Risk Factors each client must take into consideration, including, but not limited to, the risk factors listed herein.

A client's portfolio is subject to normal market fluctuations and other risks inherent in investing in securities, commodities and other financial instruments. These risks may include or relate to, among other things, equity market, bond market, foreign exchange, interest rate, credit, commodities, market volatility, political risks, and any combination of these and other risks. The value of investments and the income from them, and therefore the value of and income of the third-party strategies, can go down as well as up, and an investor may not get back the amount invested. Changes in exchange rates between currencies or the conversion from one currency to another may also cause the value of the investments to diminish or increase. An investment in a third-party strategy should not constitute a substantial proportion of an investment portfolio and may not be appropriate for all investors.

Risks may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of the third-party strategies. No assurance can be given as to the effect that any combination of risks may have on the value of the third-party strategies.

**General Risk Factors**

***Risks Related to Investment in Equity Markets.***

The third-party strategies, to the extent invested in the equity markets, are subject to a variety of market and financial risks. Common stocks, the most familiar type of equity security, represent an equity (ownership) interest in a corporation. Although common stocks and other equity securities have a history of long-term growth in value, their prices may fluctuate dramatically in the short term in response to changes in market conditions, interest rates and other company, political and economic developments. The value of the third-party strategies, to the extent invested in the equity markets will fluctuate, and the holders of these investments should be able to tolerate declines, sometimes sudden or substantial, in the value of their investment.

***Risks of Investing in Equity Securities of Non-U.S. Companies and Smaller Companies.***

Investments in non-U.S. securities, including emerging markets equities, and in small capitalization and mid-capitalization equity securities, involve special risks. For instance, smaller companies may be impacted by economic conditions more quickly and severely than larger companies. Risks of investing in foreign securities include those relating to political or economic conditions in foreign countries, potentially less stringent investor protection, disclosure standards and settlement procedures of foreign markets, potentially less liquidity of foreign markets, potential applicability of withholding or other taxes imposed by these countries, and currency exchange fluctuations.

***Interest Rate Risk Applicable to Investment in Fixed-Income Securities.***

Fixed-income securities are subject to the risks associated with investing in such instruments. Fixed-income securities, such as bonds, are issued to evidence loans that investors make to corporations and governments, either foreign or domestic. If prevailing interest rates fall, the market value of fixed-income securities that trade on a yield basis tends to rise. On the other hand, if prevailing interest rates rise, the market value of these fixed-income securities generally will fall. In general, the shorter the maturity, the lower the yield, but the greater the price stability. These factors may have an effect on the value of the third-party strategies. A change in the level of interest rates will tend to cause the net asset value of the third-party strategies to change. If these interest rate changes are sustained over time, the yield of the third-party strategies will fluctuate accordingly.

***Credit Risk Applicable to Investment in Fixed-Income Securities, Including those of Lower Credit Quality.***

Fixed-income securities, including corporate bonds, are subject to credit risk. When a security is purchased, its anticipated yield is dependent on the timely payment by the borrower of each interest and principal installment. Credit analysis and bond ratings take into account the relative likelihood that such timely payment will result. Bonds with a lower credit rating tend to have higher yields than bonds of similar maturity with a better credit rating. However, to the extent the third-party strategies invest in securities with medium or lower credit quality, they are subject to a higher level of credit risk than investments in investment-grade securities. In addition, the credit quality of non-investment grade securities is considered speculative by recognized ratings agencies with respect to the issuer’s continuing ability to pay interest and principal. Lower-grade securities may have less liquidity and a higher incidence of default than higher-grade securities. Furthermore, as economic, political and business developments unfold, lower-quality bonds, which possess lower levels of protection with respect to timely payment, usually exhibit more price fluctuation than do higher-quality bonds of like maturity, and the value of the third-party strategies invested therein will reflect this volatility.

***Risks Associated with Commodity Investments and Derivatives.***

Certain third-party strategies may use exchange–traded or over-the-counter (“OTC”) futures, forwards, warrants, options, swaps and other derivative instruments to hedge or protect the portfolio from adverse movements in underlying prices and interest rates or as an investment strategy to help attain the third-party strategy’s investment objective. Certain third-party strategies may also use a variety of currency hedging techniques, including foreign currency contracts, to attempt to hedge exchange rate risk or to gain exposure to a particular currency. The third-party strategies’ use of derivatives could reduce returns, may not be liquid and may not correlate precisely to the underlying securities or index. Derivative securities are subject to market risk, which could be significant for those derivatives that have a leveraging effect that could increase the volatility of such third-party strategies. Derivatives are also subject to the risk of material and prolonged deviations between the theoretical and realizable value of a derivative (e.g., due to non-conformance to anticipated or historical correlation patterns). Derivatives are also subject to credit risks related to the counterparty’s ability to perform, and any deterioration in the counterparty’s creditworthiness could adversely affect the instrument. A risk of using derivatives for hedging purposes is that a third-party strategy's manager might imperfectly judge the market's direction, which could render a hedging strategy ineffective or have an adverse effect on the value of the derivative. Furthermore, many derivatives, particularly those that are not traded in transparent markets, may be subject to significant price risk. Prices in these markets are privately negotiated and there is a risk that the negotiated price may deviate materially from fair value. This deviation may be particularly acute where there is no active market available from which to derive benchmark prices. The price of a given derivative may demonstrate material differences over time between its theoretical value and the value that may actually be realized by a third-party strategy (e.g., due to non-conformance to anticipated or historical correlation patterns). Many OTC derivatives are priced by the dealer; however, the price at which a dealer values a particular derivative may not comport with the price at which the third-party strategy seeks to buy or sell the position. In many instances, a third-party strategy will have little ability to contest the dealer's valuation. Derivatives, particularly to the extent they are transacted on an OTC or bilateral basis or are highly customized, may also be highly illiquid, making it difficult, or in some cases impossible, for a third-party strategy to exit a position at what the third-party strategy's manager considers a reasonable price.

To the extent that a third-party strategy enters into a derivative on an OTC or "bilateral" basis, which means that the third-party strategy's ultimate counterparty in a transaction is not a regulated clearing house (a well-capitalized and regulated party that becomes the counterparty to each trade on both sides of a specific market upon acceptance for clearing), then the third-party strategy will be subject to the risk that the counterparty to the third-party strategy will not be able to perform its obligations under the transaction. Any deterioration in the counterparty's creditworthiness could result in a devaluation of the transaction and result in losses to the third-party strategy. There are a small number of major financial institutions globally that act as counterparties in the majority of OTC derivatives transactions and represent the vast majority of liquidity available in these markets. These institutions have historically been highly leveraged and largely unregulated and have had substantial financial exposure to each other, increasing the risk that a failure of one financial institution could lead to a "domino" effect of further failures of major financial institutions. Many of these financial institutions received substantial government-directed financial support or were "bailed out" during the financial crisis of 2008-2010. The failure of Lehman Brothers in September 2008 had a significantly adverse impact on those traders that transacted with Lehman Brothers in the OTC markets. There can be no guarantee that similar failures will not occur in the future.

There has been substantial disruption in the OTC derivatives markets related to the market turmoil and failure of certain financial institutions in 2008 and 2009. The vast government intervention during this period also led to considerable uncertainty among market participants. Although the OTC derivatives markets have since stabilized somewhat, there can be no assurance that the turmoil in the markets will not recur. This disruption and uncertainty could cause substantial losses to a third-party strategy if its OTC derivatives are prematurely terminated, especially due to the default of a third-party strategy counterparty, where payment may be delayed or completely lost.

***Risks of Trading Futures on Foreign Exchanges.***

Certain third-party strategies may trade futures on non-U.S. exchanges. These exchanges are not regulated by any U.S. governmental agency. Such third-party strategies could incur substantial losses trading on foreign exchanges to which they would not have been subject when trading on U.S. markets. In addition, the profits and losses derived from trading foreign futures and options will generally be denominated in foreign currencies; consequently, such third-party strategies will be subject to a certain degree of exchange rate risk in trading such contracts. Exchange rate risk is the risk that a security's value will be affected by changes in exchange rates relative to the U.S. dollar.

***Substantial New Regulation of OTC Derivatives Markets***

The Dodd Frank Act includes provisions that seek to comprehensively regulate the U.S. OTC derivatives markets for the first time. As a result of the Dodd Frank Act, the SEC and the CFTC may also require a substantial portion of derivative transactions that are currently executed on a bilateral basis in the OTC markets to be executed through regulated securities, futures or swap exchanges or execution facilities and submitted for clearing to regulated clearing houses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearing house, as well as possible margin requirements, mandated by U.S. securities and futures regulators. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Dodd Frank Act includes limited exemptions from the clearing and margin requirements for so-called “end users,” the third-party strategies will not be able to rely on such exemptions. OTC derivatives dealers also will be required to post margin to the clearing houses through which they clear their customers’ trades instead of using such margin in their operations, as they currently are allowed to do. This will further increase the dealers’ costs, and these increases are expected to be passed through to other market participants in the form of higher fees and less favorable pricing. New requirements resulting from the Dodd Frank Act may make it more difficult and costly for the third-party strategies to enter into customized transactions. They may also render certain strategies in which the third-party strategies might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivatives dealers and major OTC derivatives market participants will also be required to register with the SEC and/or the CFTC. The third-party strategies or third-party Managers may be required to register as major participants in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory obligations. These requirements may increase the overall costs for OTC derivatives dealers, which are likely to be passed along, at least in part, to market participants in the form of higher fees or less favorable pricing. The overall impact of the Dodd Frank Act on the third-party strategies is as yet uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

***Risks Associated with U.S. Government Obligations.***
Obligations of the U.S. government and the agencies and instrumentalities thereof are referred to herein as “U.S. Government Obligations.” Not all U.S. Government Obligations are backed by the full faith and credit of the United States. For example, securities issued by the Federal Farm Credit Bank or by the Federal National Mortgage Association are supported by the agency’s right to borrow money from the U.S. Department of the Treasury under certain circumstances, and securities issued by the Federal Home Loan Banks are supported only by the credit of the issuing agency. There is no guarantee that the U.S. government will support these securities, and, therefore, they involve more risk than U.S. Government Obligations that are supported by the full faith and credit of the United States.

Further, one nationally recognized U.S. statistical rating organization, in August 2011, downgraded the credit rating of long-term U.S. government securities to AA+ from AAA, and other nationally recognized statistical rating organizations have placed U.S. government securities on negative “watch.” These events and circumstances could result in further market disruptions that could adversely affect the market for U.S. Government Obligations, as well as other financial markets, on a global basis.

***Redemption Risk.***
A third-party strategy may need to sell its holdings in order to meet redemption requests of participating trusts holding investments in a fund. Such third-party strategy could experience a loss when selling securities to meet redemption requests if the redemption requests are unusually large or frequent, occur in times of overall market turmoil or declining prices for the securities sold, or when the securities the third-party strategy wishes to or is required to sell are illiquid. The third-party strategy may be unable to sell illiquid securities at its desired time or price. Illiquidity can be caused by a drop in overall market trading volume, an inability to find a ready buyer, or legal restrictions on the securities’ resale. Certain securities that were liquid when purchased may later become illiquid, particularly in times of overall economic distress.

***Risk of Reliance on Industry Research*.**
Certain third-party strategies and their Managers are dependent to a significant extent on information and data obtained from a wide variety of sources to assess the quality of the securities in which they propose to invest, such as financial publications that monitor markets and investments, industry research materials, ratings issued by one or more nationally recognized credit rating agencies to assess the credit quality of securities in which they propose to invest, and other materials prepared by third parties. There may be limitations on the quality of such information, data, publications, research and ratings, and generally neither AHIC nor the third-party strategies’ managers independently verifies any of the same. For instance, certain asset-backed securities, such as sub-prime collateralized mortgage obligations and securities backed by bond insurance that initially received relatively high credit ratings were, in connection with the credit markets turbulence that began in 2007,

subsequently significantly downgraded as the investment community came to realize that there may have been previously unanticipated risks associated with these securities. There is a risk of loss associated with securities even if initially determined to be of relatively low risk, such as in the case of collateralized debt obligations and other structured-finance investments that often are highly complex.

***Legal and Regulatory Changes Could Adversely Affect the Third-party Strategy.***
Regulation of investment vehicles such as the third-party strategies, and of many of the investments a third-party strategy manager is permitted to make on behalf of the third-party strategy(ies) advised by it, is still evolving and therefore subject to change. In addition, many governmental agencies, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The effect of any future legal or regulatory change on a third-party strategy is impossible to predict, but could be substantial and adverse.

***Risks of Securities Lending Undertaken by the Third-party Strategy.***
The third-party strategies, to the extent they are engaged in securities lending, may be subject to the risks associated with the lending of securities, including the risks associated with defaults by the borrowers of securities subject to the securities lending program and the credit, liquidity and other risks arising out of the investment of cash collateral received from the borrowers.

***Restrictions on Redemptions and Payment of Redemption Proceeds.***
Investors should note that there may be restrictions in connection with the subscription, holding and redemption of and trading in the third-party strategies units. Such restrictions may have the effect of preventing the investor from freely subscribing, holding, trading and/or redeeming a third-party strategy unit. For additional information, please refer to each fund’s confidential offering memorandum.

***Market Disruption Events and Settlement Disruption Events.***
A determination of a market disruption event or a settlement disruption event may have an effect on the value of the third-party strategies and/or may delay settlement in respect of a third-party strategy unit. The third-party strategies may incur losses from disrupted markets, and other extraordinary events may affect markets in a way that is not consistent with historical pricing relationships. The risk of loss from a disconnect from historical prices is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving.

In addition, market disruptions caused by unexpected political, military and terrorist events may from time to time cause losses for an investment portfolio, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may, from time to time, suspend or limit trading. Such a suspension could render it difficult or impossible for a third-party strategy to liquidate affected positions and thereby expose it to losses.

Other Risks and Conflicts
Because of the wide range of services offered by AHIC and its affiliates, it is possible that conflicts may arise. As discussed in *Item 6 – Performance Based Fees and Side-by-Side Management*, certain conflicts of interest also arise from the fact that AHIC and each sub-adviser may provide consultation or investment management services to other clients, pooled investment vehicles or separately managed accounts, some of which may have similar or different investment objectives to those of the strategies available in the strategies and funds managed by AHIC. As AHIC manages our client relationships on a customized basis, there may be conflicting investment objectives and risk tolerances among AHIC clients invested in similar investment vehicles.

Investors should be aware their investment is not guaranteed and understand that there is a risk of loss of value in their investment.

## Item 9: Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

AHIC and its management personnel have no reportable disciplinary events to disclose; however, Aon plc and its business units and affiliates do business throughout the country and, like all businesses in the United States, are subject to a certain number of lawsuits pending in the ordinary course of its business on a worldwide basis. Details of litigation filed against Aon are available in Aon plc's annual Form 10 K filing (Note 16) and Aon plc's quarterly Form 10 Q filing (Note 14). Excerpts of the 10 K and 10 Q filings containing, respectively, Note 16 and Note 14, are available on Aon's website (www.aon.com). Although the ultimate outcome of all such matters cannot be ascertained, it is the position of Aon plc that the disposition or ultimate determination of such claims will not have a material effect on the financial position of Aon plc or any of its business units nor impacts its ability to perform services for the benefit of its clients.

## Item 10: Other Financial Industry Activities and Affiliations

**Aon plc ("Aon")** is a global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. These services are provided through direct and indirect subsidiaries. As discussed above in *Item 5 – Fees and Compensation*, we offer a number of OCIO solutions to our clients, in conjunction with some services which are offered through various Aon affiliated companies.

As a result of some of these solutions, certain employees of ours hold securities licenses with **Aon Securities, Inc. ("ASI")**, a FINRA registered broker-dealer and an SEC registered investment adviser, and an indirect subsidiary of our ultimate parent, Aon plc. Interests in the AHGT, AHFoHF, and AHIF are also offered through ASI, which is not remunerated for this service. ASI often plays several roles when engaging with its clients, including structuring and distribution of securities. On the structuring side, ASI advises on the details of a proposed transaction, including the duration, pricing, and terms and conditions of securities. Once structured, ASI also sells or distributes the securities to a wide variety of investors (i.e., acts as a placement agent). As part of ASI's sale or distribution of securities, ASI may come into contact with AHIC clients, as potential investors in securities being distributed by ASI. Only properly FINRA licensed registered representatives can directly engage in the sales or distributions of AH funds offered by ASI acting as placement agent. AHIC does not receive any commission for any sales of ASI distributed securities. AHIC's compensation is derived from asset-based advisory fees based on the AUM of the client's portfolio for its discretionary services regardless of the use of AH private funds or unaffiliated products/services. AHIC's advisory fees are the direct compensation paid by the client to AHIC as disclosed under the terms of a discretionary investment management agreement.

**Aon Retirement Plan Advisors, LLC ("ARPA")** is a registered investment adviser, and like us, is a wholly owned subsidiary of Aon Consulting, Inc. ARPA provides investment consulting services primarily to smaller retirement plans (typically under $75 million in plan assets) and to companies providing certain executive benefits to their employees.

**Aon Trust Company ("ATC")** is an Illinois non-depository, state-chartered bank. AHIC serves as investment adviser with limited discretionary authority to the Aon Hewitt Collective Investment Trust, of which ATC is Trustee. AHIC offers the AHCIT to certain delegated defined contribution clients. Additional information on AHCIT, its structure and the fees paid to AHIC are available within AHCIT's private offering statement.

Participating Affiliates

**Aon Hewitt Limited ("AHL")** is a UK registered company that has been regulated by the UK's Financial Conduct Authority to provide regulated products and services since September 2011. AHL's main focus is on advising UK pension schemes, Trustees and scheme sponsors on managing pension risks, setting investment strategies, improving member engagement and providing member administration services. In addition, AHL provides HR and outsourcing services to clients.

**Aon Hewitt, Inc.** is a wholly owned subsidiary of Aon Canada and part of the Aon plc group of companies. Aon Hewitt Inc. offers a range of sophisticated advisory and consulting services in risk control and risk management, reinsurance, and human capital. The Canada Retirement & Investment Consulting organization consists of retirement consultants and actuaries who advise and support organizations in actively managing the risks of their retirement benefit programs.

Other Activities

In addition to the above affiliations, a number of investment management firms we review and may recommend to our clients are AHIC clients themselves and/or clients of Aon or firms with which Aon may have vendor or other business relationships. We maintain processes to avoid any perceived conflicts of interest associated with our recommendations of firms that may do business with Aon in any capacity. These processes include a core ethical culture emphasizing our fiduciary responsibilities, the diligence and awareness of our senior management team, a review of all client engagements by senior management and compliance review of personal trading.

Unaffiliated Third-Party Investment Management Firms

We also provide investment consulting services to investment management firms specific to its employee retirement plans. AHIC provides these services subject to a competitive bid and pricing process consistent with AHIC's sales practices. AHIC does not provide any investment consulting or management services to unaffiliated, third-party investment management firms in relation to the product or services those firms offer to their clients. Specific information regarding AHIC's advisory fees is provided in *Item 5 – Fees and Compensation*.

We conduct periodic reviews of our investment management research database to ensure that recommendations of any investment management firm that also happens to be a client of Aon are not disproportionate to other similar firms.

Commodity Pool Operator and Commodity Trading Advisor

AHIC is registered as a CPO and CTA with the CFTC and is a member of the NFA.

Pooled Investment Vehicles

AHIC serves as the investment adviser to the Aon Hewitt Group Trust and the Aon Hewitt Collective Investment Trust, which are available to eligible qualified retirement plans and government plans that meet certain requirements.

AHIC also serves as the investment adviser to Aon Hewitt Offshore Fund of Hedge Funds and Aon Hewitt Institutional Funds.

Expense Sharing Arrangements

We pay Aon for all expenses incurred by us that relate to the operation of our business, including: costs associated with total employee compensation; supervised persons licenses; rent and utilities; furniture and equipment; computers; and telephones. All such expenses, and allocation methodologies thereof, are governed by an expense sharing agreement between us and various affiliates within Aon Hewitt. Some of our non-consulting executive officers and directors are also employed in various corporate capacities by Aon or Aon Hewitt affiliates, in those entities' capacity as leading providers of a variety of human resource management consulting services, including actuarial and benefit plan consulting services, insurance, communications and management consulting and benefit plan administration.

Client Investment Committees

AHIC may serve as a member of a client's Investment Committee with voting rights. However, AHIC abstains from voting on any issues involving retaining or terminating it as a client's investment manager or investment adviser.

## Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have adopted a Code of Ethics expressing our commitment to ethical conduct. Our Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth our procedures related to personal securities transactions of our supervised persons with access to client information. Our officers, directors and employees may buy or sell securities for their personal accounts identical to or different than those held by our clients. It is our policy that no supervised person shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients. Further, we also may recommend to clients the purchase of shares in mutual funds, exchange traded funds and AHIC's pooled investment vehicles when consistent with the client's investment guidelines and objectives in which Aon or one or more of its employees or affiliates have a financial interest.

To supervise compliance with our Code of Ethics, we require that all Covered Persons, as that term is defined in AHIC's Code of Ethics, provide annual securities holdings reports and quarterly transaction reports to the firm's Chief Compliance Officer. All of our Covered Persons must acknowledge the Code of Ethics terms at least annually. We require these Covered Persons to also receive approval from the Chief Compliance Officer prior to investing in any IPOs or private placements.

We require that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices. Our Code of Ethics further includes the firm's policy prohibiting the misuse of material non-public information. Any individual not in observance of the above may be subject to discipline.

We will provide a complete copy of our Code of Ethics to any client or prospective client upon request to Aon Hewitt Investment Consulting, Inc., Attn: AHIC Compliance, 200 E. Randolph Street, Suite 1500, Chicago, IL 60601.

## Item 12: Brokerage Practices

As a result of AHIC's business model, we generally delegate all of the trading activity on behalf of our clients to our sub-advisors. We allow the sub-advisors to determine the broker-dealers through which they transact securities. Trade aggregation occurs when the broker is permitted to aggregate a customer's trades with those of other customers. These efficiencies may result in lower trade costs for the customers but may influence the timing of a transaction. The investment managers we select in connection with our discretionary investment consulting services are allowed to aggregate customer trades subject to our review of their trading and brokerage practices and subject to them following applicable rules and regulations regarding these practices. We periodically review their adherence to these practices.

From time to time, we will recommend broker-dealers to investment advisory clients, typically retirement plan clients whose portfolios are managed by a separate investment adviser who is not affiliated with AHIC. There are typically two different scenarios in which we are hired by a pension client to recommend a broker dealer: (1) to assist pension clients with the transition between investment managers; or (2) to assist pension clients with the funding of new portfolio positions. We will solicit and review bids from independent third-party broker-dealers. The specific brokerage needs can vary between each pension client, but the primary factors considered in making final recommendations are typically (1) the competitiveness of execution rates; (2) the quality of previous executions provided; and/or (3) how efficiently the broker-dealer transitions the portfolios with minimal market impact. Our fees for this service are fully disclosed. We do not receive direct or indirect compensation from any recommended broker-dealers.

Soft-dollar arrangements are those in which brokerage commissions are utilized to pay for services or other benefits that the adviser would have to pay for itself (for example, investment research). AHIC does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

## Item 13: Review of Accounts

For our investment advisory clients, we will negotiate the nature and frequency of client reporting and account reviews with each client. Most commonly, reporting is provided quarterly, but the client may request reports more frequently (monthly) or less frequently, but no less frequently than annually. Additional reviews may be triggered by material market, economic or political events, or by changes in the client's circumstances. All accounts are reviewed by one of our consultants.

On at least an annual basis, senior management performs reviews of a sample of accounts to evaluate for appropriate investment allocations and other safeguards.

For our delegated clients, we review client accounts on a regular basis to confirm that allocations are within target ranges and are in adherence with the client's investment guidelines. In addition to monitoring client accounts, we monitor our sub-advisors adherence to their stated investment guidelines and objectives. We also review any internal research notices issued on the sub-advisors contained in our client accounts to remain cognizant of the sub-advisors' portfolio management and operational activities.

For our model portfolios delivered through IAS, we provide updates to the model portfolios as indicated in our investment agreement with the client.

## Item 14: Client Referrals and Other Compensation

From time to time we may receive a client referral from certain of our affiliates, such as Aon Risk Services, Hewitt Associates LLC, or Aon Consulting Inc., all of which are subsidiaries of Aon. In these situations, we may compensate the referring consultant for the referral. Actual payment is dictated by the role of the referring consultant and internal Aon organizational compensation policies.

Further, AHIC employees may receive internal compensation for referring prospective or current clients to affiliated Aon businesses. In these situations, referral compensation is paid by AHIC's affiliates out of their own assets, and is not paid directly by the client. Clients will be charged additional fees beyond AHIC's fees for the services provided by AHIC's affiliates. There may be an inherent conflict of interest with such arrangement as AHIC employees may receive referral compensation for making the referral for an affiliate's services. While such arrangements raise a conflict of interest consideration for AHIC, compensation policies are structured with the goal to mitigate such conflicts and to comply with applicable law, including regulations and guidance applicable to client portfolios subject to the Employee Retirement Income Security Act of 1974 ("ERISA").

AHIC Delegated Investment Solutions may be an appropriate consideration for AHIC's clients. AHIC may have an incentive to recommend that an investment advisory client select Delegated Investment Solutions as a discretionary asset manager or OCIO due to additional fees that we may receive based on the asset-based fee structure associated with the discretionary assets managed by AHIC. To mitigate this potential conflict of interest, AHIC's investment consulting practice will not evaluate or recommend that its clients use AHIC's Delegated Investment Solution for a discretionary asset management service or investment advice. However, a client may independently choose to use AHIC's Delegated Investment Solution in their fiduciary capacity.

We have engaged a third party to provide background research and initial introductions for some of our solutions. Any payments made are paid solely by AHIC and are not dependent on final client engagement. No client funds are used to pay for this referral assistance.

Certain AHIC Covered Persons are associated with ASI, an affiliated broker-dealer of AHIC, and in that capacity may engage in marketing or selling activities with respect to the placement of AHIC's private funds. AHIC directly compensates its Covered Persons for successful marketing or selling activities.

## Item 15: Custody

Generally, each AHIC client appoints a third-party qualified custodian for the client's funds and securities. However, pursuant to SEC custody rules, we are deemed to have custody in limited circumstances involving certain pooled investment vehicle clients for whom AHIC serves in a capacity as general partner, managing member or a role of similar capacity. In these circumstances, all assets of each such client are held by a qualified custodian, and account statements are delivered at least quarterly directly from the qualified custodian to the independent representative designated by the client to receive such statements on behalf of the client. Underlying investors of the pooled investment vehicle clients also will receive statements from AHIC on a monthly basis. AHIC arranges for its pooled investment vehicles to be audited on an annual basis and for the audited financial statements to be delivered to all investors within 180 days of the end of the pooled investment vehicles' fiscal year.

In limited circumstances, AHIC is deemed to have custody of certain client accounts because AHIC directs the payment of fees and expenses from such accounts. For these accounts, AHIC arranges for an independent public accountant to conduct a surprise asset verification of the assets annually.

Clients should receive at least quarterly statements from the broker-dealer, bank or a qualified custodian that holds and maintains the client's investment assets. We strongly urge our clients to compare the account statements or reports we provide with those official statements from the client's custodian records.

## Item 16: Discretionary Investing

We manage accounts on a discretionary or non-discretionary basis.

When we manage accounts on a non-discretionary basis, we perform our duties in accordance with the investment contract. We generally provide non-discretionary advice through our model portfolios or with our investment consulting clients such as endowments, foundations and public funds.

Generally, when managing accounts on a discretionary basis, we provide a service to certain institutional clients' investment portfolios, where we are delegated the authority to hire investment managers, terminate investment managers, and rebalance portfolio assets, subject to the client's investment policy statement and other terms outlined in the investment consulting agreement. We select, approve and monitor these investment managers strategies pursuant to the client's investment guidelines which, in many cases, are developed with our assistance. We exercise our investment discretion consistent with a client's investment policy, as well as with any investment guidelines or restrictions.

As the delegated portfolio manager, we execute and deliver any and all agreements necessary for the investment, and we direct the client-appointed custodian to acquire, hold, sell, transfer, exchange, and dispose of the investments, as applicable.  We provide our delegated service offering to both defined benefit and defined contribution plans, as well as select other clients.

For certain other delegated clients, we may enter into agreements with investment managers outside of AHIC's private funds. The primary reasons why a delegated client may not be recommended to invest through the funds are that they don't have sufficient assets to qualify as investors or that the investment alternatives available through funds do not meet the investing needs of the client.

We also provide a service whereby we have been delegated the authority to oversee the investment management of a portfolio structured to perform similarly to a target date maturity fund. These funds are common in defined contribution (including 401(k)) retirement plans. These funds are designed to reduce risk over time as the investor gets closer to retirement age. These funds are typically named after the "target" retirement year of the plan participant or investor (i.e., the "2025 Fund"). Rather than rely upon one investment manager's investment funds, clients who hire us for this service look for us to assist them in using many of the other funds available for investment in the plan to build a "customized" target date portfolio. We will assist the plan's fiduciary committee with developing the "glide path" or the planned investment strategy of the portfolio and are given discretionary authority to adjust the asset allocation of the portfolio to meet the ranges dictated by the glide path.

We also assist some of our delegated clients by being given the delegated authority over private equity investments made by these plan clients. This delegated authority is limited to the percent allocation to the private equity class that is dictated in the client's investment policy statements, which allows us to determine which securities and the amounts of securities that are bought or sold in a client's account.

Clients delegate to us the investment authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by providing us with written instructions.

## Item 17: Voting Client Securities

Where clients provide proxy voting authority to AHIC, and in the discretionary management of its client portfolios, AHIC allocates assets to various sub-advisers who are directly responsible for voting proxies on behalf of AHIC's clients consistent with the respective sub-adviser's proxy voting policies and procedures. Each sub-adviser is responsible for exercising voting authority over securities in client portfolios consistent with the client's best interests, which is viewed as making a judgment as to what voting decision (including a decision not to vote) is reasonably likely to maximize total return to the client. Each sub-adviser must maintain proxy voting policies and procedures consistent with SEC Rule 206(4)-6 of the Advisers Act.

Regarding AHIC's Non-Discretionary clients, AHIC does not advise on the manner in which to vote proxies in a client's plan/portfolio.

In the event that AHIC would vote proxies on behalf of the AH funds ("Funds"), we may retain a third-party service provider to manage the proxy process, provide proxy recommendations or guidelines, to cast votes, to respond to client requests for the policy or voting information, and/or to keep and maintain records required under the policy. Sub-advisers will be added or removed from the third-party service  as applicable.

## General Voting Guidelines

- Sub-advisers with equity holdings are to vote proxies for accounts they manage on behalf of an AHIC client in a manner consistent with the sub-adviser's proxy voting policies and procedures and any written instructions from AHIC or our client.
- A sub-adviser must notify AHIC of votes contrary to its general guidelines, votes on non-routine matters and instances where the sub-adviser refrains from voting during its quarterly reporting to AHIC.
- We expect sub-advisers to vote proxies according to each respective sub-adviser's stated proxy voting policy and in the best interest of shareholders, except when a client's proxy guidelines require specific voting instructions contrary to the sub-adviser's proxy policies.
- Sub-advisers may refrain from voting client proxies in certain circumstances consistent with AHIC's Proxy Voting Policy.

## Conflicts of Interest

The sub-adviser must have procedures in place to address the mitigation of such Conflicts of Interests. In the case of conflicts of interests arising with a proxy held by a sub-adviser in the Funds, the sub-adviser should vote per their usual policy but notify AHIC so that we may review the identified conflict and provide further guidance, if applicable.

## Aon Hewitt Funds Voting Guidelines

In those cases where AHIC votes proxies, AHIC will delegate to business management to review the particular matter being voted on. Votes will be cast in a manner which AHIC believes is in the best interest of fund investors. For matters related to:

- Board of Directors - AHIC will generally vote for directors up for election. However, votes on director nominees will be determined on a case-by-case basis, considering relevant factors.
- Compensation - AHIC will determine on a case-by-case basis the vote that will be taken.

## Class Action Claims

From time to time, in its capacity as investment manager to an Aon Hewitt Fund, AHIC receives notice that such Fund may be eligible to participate in a securities class action claim to recover losses incurred as a result of fraud or other alleged bad act ("Class Action Claim"). AHIC will only pursue Class Action Claims related to Aon Hewitt Funds, excluding the AHCIT. AHIC's affiliate, ATC, is responsible for the participation of any Class Action Claims associated with investors in the AHCIT.

AHIC has contracted with a third-party class action service to participate in Class Action Claims for any eligible securities held in an Aon Hewitt managed Fund.  The third-party service provider will file a Class Action Claim for any and all settlements in which a Fund held positions in or transacted in the securities that are subject to the settlement.

For a copy of AHIC's Proxy Voting Policy, please contact AHIC Compliance.

## Item 18: Financial Information

Registered investment advisers are required to provide you with certain financial information or disclosures about AHIC’s financial condition. AHIC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. AHIC has not been the subject of a bankruptcy petition at any time during the past ten years.

# Form ADV, Part 2B
# Brochure Supplement

# Aon Hewitt Investment Consulting, Inc.

200 East Randolph Street, Suite 1500

Chicago, IL 60601

Phone: 312.381.1200

**www.aonhewitt.com/investmentconsulting**

This brochure supplement provides information about the qualifications and business practices of Aon Hewitt Investment Consulting, Inc.'s supervised persons that supplements Aon Hewitt investment Consulting, Inc.'s brochure. You should have received a copy of that brochure. Please contact Lyda Iturralde, Chief Compliance Officer, at 312-381-1200 or by email at Lyda.Iturralde@aonhewitt.com, if you did not receive Aon Hewitt investment Consulting, Inc.'s brochure or if you have any questions about the contents of this supplement. The information in this brochure supplement has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

# Jeanna Cullins, Partner

200 East Randolph Street, 15th Floor
Chicago, IL 60601
312.381.1241
March 9, 2015

**Item 2. Educational Background and Business Experience**
Jeanna, born in 1954, is a partner and serves as the primary consultant and manages consulting assignments for a select number of Aon Hewitt retainer and project clients. Jeanna co-leads the Firm's Fiduciary Services Group, which focuses on fiduciary reviews, strategic planning, trustee education and plan governance matters:

Examples of Jeanna's experience include:

- Leading operational reviews of public and corporate pension funds focused on identifying and controlling risk, enhancing long-term investment performance, and adopting and implementing industry best practices; these reviews typically included evaluating process documentation, staffing and resources, compensation, due diligence processes, use of service providers, and internal controls

- Assisting numerous pension funds in reviewing, and comparing to, common and best practices, the policies and processes governing their operations, including their governance structure, investments and benefits administration, and provided findings regarding compliance and recommendations for enhancements to practices, including the drafting of new policies and procedures

- Developing customized training sessions for boards and staffs of public and corporate funds in the areas of governance best practices, the requirements of fiduciary responsibility, and emerging governance issues

- Evaluating the structure of the relationships among service providers to determine whether or not those relationships constituted a conflict of interest – actual or perceived.

Prior to joining the firm in 2008, Jeanna served as Managing Director and Operational Review Practice Leader at Independent Fiduciary Services (IFS). During her 10-year tenure at IFS, Ms. Cullins worked on more than 30 fiduciary reviews (a.k.a "operational reviews") advising the leadership of some of the largest pension funds in the country to develop effective, efficient, practical ways to enhance their operations. She served as Executive Director to the District of Columbia Retirement Board from 1993 to 1997, and as the Board's General Counsel from 1985 to 1993.

Jeanna holds a B.A., cum laude, from Brooklyn College, City University of New York and a J.D. from Georgetown University Law Center. She serves on: the Board of Directors of the Metropolitan Chicago YWCA; the Illinois Student Assistant Commission Investment Advisory Panel; and the emeritus board and is an active member of the National Association of Public Pension Attorneys. She was recognized as a Top Employee Benefits Consultant by Risk & Insurance magazine and by Chicago United as a Business Leader of Color. She has also served as a trustee on the District of Columbia Tobacco Settlement Trust Fund and the National Association Securities Professionals Board. She is a frequent speaker at pension industry conferences specifically on topics including fiduciary audits, “best practices,” pension fund processes, investment consultant practices, and risk management.

**Item 3. Disciplinary Information**
Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this individual.

**Item 4. Other Business Activities**
Ms. Cullins is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business or occupation for compensation.

**Item 5. Additional Compensation**
Not Applicable

**Item 6. Supervision**
Ms. Cullins is subject to Aon Hewitt written compliance and supervisory procedures and Code of Ethics, which includes on-going compliance monitoring. Ms. Cullins’ activities are directly supervised by Russ Ivinjack, Senior Partner. Mr. Ivinjack can be reached at 312-715-1700.

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**Janet Callion, CEBS*, Consultant**

200 E. Randolph, Suite 1500
Chicago, IL 60601
(312) 381-1242


January 30, 2015

**Item 2. Educational Background and Business Experience**

Ms. Callion is a Fiduciary Consultant that works as an integral part of the Fiduciary Services group within the firm. In this capacity she focuses on research, fiduciary audits or reviews, policy development and implementation, fiduciary training and education, board and committee annual self-evaluations, strategic planning, trustee education and ongoing educational sessions, and RFP/RFI development and evaluation services, policy and statute reviews, governance diagnostics, strategic planning.

Janet works as part of a team that provides fiduciary and governance consulting services to a wide variety of decision makers for public and corporate funds, endowments and foundations. Janet has assisted in conducting independent evaluations of investment-related operations, focusing on governance, organizational structure and resources, investment policies, asset allocation process and investment risk, investment management structure and costs, and due diligence procedures; developing orientation materials for new trustee or committee members assuming fiduciary status; and serving as project quality control coordinator and overall project manager on large, complex projects. Prior to joining the firm, Janet worked for several law firms and a public agency.

Janet holds a B.A. degree in political science from Howard University, a M.P.A. degree from Indiana University, and a J.D. from Valparaiso University Law School. She maintains her license to practice law in Illinois. Janet also holds the Certified Employee Benefit Specialist (CEBS) designation from the International Foundation of Certified Employee Benefit Specialists and the Wharton School of the University of Pennsylvania.

**Item 3. Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this individual.

**Item 4. Other Business Activities**

Ms. Callion is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business or occupation for compensation.

**Item 5. Additional Compensation**

Not Applicable

**Item 6. Supervision**

Ms. Callion is subject to Aon Hewitt Investment Consulting, Inc.'s written compliance and supervisory procedures and Code of Ethics, which includes on-going compliance monitoring. Ms. Callion's activities are directly supervised by Jeanna Cullins, Partner. Ms. Cullins can be reached at (312) 381-1241.

***CEBS Designation:** The Certified Employee Benefits Specialist (CEBS) designation is an international professional certification offered by the Wharton School of Business of the University of Pennsylvania and the International Foundation of Employee Benefit Plans. The CEBS designation is a credential recognized for the depth and breadth of critical knowledge it provides in the area of total employee benefits. The CEBS program is the most recognized and respected benefits designation in the industry and is achieved by the successful completion of eight courses designed by the Wharton School of the University of Pennsylvania.

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# Rian Akey, Partner

200 East Randolph Street
Chicago, Illinois 60601
312.381.5897

August 28, 2017

**Item 2. Educational Background and Business Experience**

Mr. Rian Akey, born in 1972, is a Partner and Global Head of Operational Due Diligence. He was previously a Principal at Mercer Investments, responsible for conducting operational risk assessments of underlying investment managers, from January 2011 – April 2015. Previous to Mercer, he was a Partner and Chief Operating Officer at Cole Partners LLC, an alternative investment management firm, from January 1999 – December 2010.

**Item 3. Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this individual.

**Item 4. Other Business Activities**

Mr. Akey is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business or occupation for compensation.

**Item 5. Additional Compensation**

Not Applicable

**Item 6. Supervision**

Mr. Akey is subject to Aon Hewitt Investment Consulting, Inc.'s written compliance and supervisory procedures and Code of Ethics, which includes on-going compliance monitoring. Mr. Akey's activities are directly supervised by George Mortimer. Mr. Mortimer can be reached at +44 20 7086 9211.

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# Michael W. McCormick, Senior Consultant

200 E. Randolph Street, Suite 1500
Chicago, IL 60601
312.381-1276
January 1, 2016

**Item 2. Educational Background and Business Experience**

Mr. McCormick, born in 1983, is a Senior Consultant in our Chicago, Illinois office. Mr. McCormick manages one of the firm's client advisory groups and works with a wide variety of client types. Mr. McCormick has spoken frequently before industry groups on a broad range of topics pertaining to firm's policy and manager research. Mike attended Loyola University Chicago where he earned a B.B.A. in finance and economics. He is currently a candidate for Level II of the CFA*.

**Item 3. Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this individual.

**Item 4. Other Business Activities**

Mr. McCormick is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business or occupation for compensation.

**Item 5. Additional Compensation**

Not Applicable

**Item 6. Supervision**

Mr. McCormick is subject to Aon Hewitt Investment Consulting's written compliance and supervisory procedures and Code of Ethics, which includes on-going compliance monitoring. Mr. McCormick's activities are directly supervised by P.J. Kelly, CFA, CAIA, Partner. Mr. Kelly can be reached at (312) 381-1276.

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# Phillip M. Kivarkis, FSA, CFA*, Partner


4 Overlook Point
Lincolnshire, IL 60069
847.442.3825

August 29, 2017

**Item 2. Educational Background and Business Experience**

Mr. Kivarkis, born in 1972, is a partner in our Lincolnshire, Illinois office. He is the Director of Investment Policy Services, working with clients to develop investment policy and risk management solutions. He also serves as an actuarial expert for Aon Hewitt Investment Consulting, Inc. Mr. Kivarkis has authored several research reports regarding pension risk management, and has spoken at numerous industry conferences. He has led training efforts for both internal and external audiences on thought leadership and pension risk management. He has been quoted as an investment and actuarial expert in several media outlets.

Mr. Kivarkis is a Fellow of the Society of Actuaries. He holds the Chartered Financial Analyst designation and is a member of the CFA Institute. He graduated with highest distinction from the University of Illinois, and holds a BS degree in Actuarial Science.

**Item 3. Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this individual.

**Item 4. Other Business Activities**

Mr. Kivarkis is not actively engaged in any other investment-related business or occupation, nor is he actively engaged in any other business or occupation for compensation.

**Item 5. Additional Compensation**

Not Applicable

**Item 6. Supervision**

Mr. Kivarkis is subject to Aon Hewitt Investment Consulting, Inc.'s written compliance and supervisory procedures and Code of Ethics, which includes on-going compliance monitoring. Mr. Kivarkis' activities are directly supervised by Steve Cummings, Senior Partner. Mr. Cummings can be reached at 847.442.0064.

***CFA Charterholder:** The Chartered Financial Analyst (CFA) designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA Charterholder, a candidate must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA Institute) and have 48 months of qualified, professional work experience. CFA Charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

**Disclaimer**

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200 E. Randolph Street
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Chicago, IL 60601
ATTN: AHIC Compliance Officer



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