

September 4, 2012

**SOLICITATION FOR PROPOSALS  
FOR INVESTMENT CONSULTING SERVICES**

You are invited to submit proposals in accordance with the requirements of this solicitation, contained herein, to provide investment consulting services for the Oklahoma Firefighters Pension and Retirement System (the System). Respondents to this proposal are required to comply with the bid procedures as set forth in this solicitation pursuant to the Competitive Bid Standards attached hereto as Appendix A. Failure to comply with the bid procedures may render the bid invalid. Proposals should be submitted to Finley & Cook at the address listed below:

**Mail or Overnight to:**

Oklahoma Firefighters' Pension and Retirement System – Investment Consulting Services Proposal  
c/o Finley & Cook  
Audit Department  
1421 East 45<sup>th</sup> Street  
Shawnee, OK 74804

This solicitation does not commit the System or the State of Oklahoma to award a contract, to pay any costs incurred in the preparation of a proposal, or to procure or contract for the articles of goods or services. The System reserves the right to accept or reject any or all proposals received as a result of this solicitation, to negotiate with all qualified respondents, or to cancel in part or in its entirety this proposal if it is in the best interest of the System to do so. The contract will be awarded by the Oklahoma Firefighters Pension and Retirement Board (the State Board) from a list of qualified respondents.

The System will not hold a pre-bid conference. The System will respond to questions that are presented in writing. These questions will be consolidated into a single Q & A document, which will be distributed upon written request. Potential respondents do not have to submit questions to receive the completed Q & A sheet. Questions are due September 15, 2012, and may be e-mailed to Duane.Michael@firepension.ok.gov. The Q & A answer sheet will be returned on or about September 29, 2012. Eight (8) copies of the response to this solicitation along with one (1) copy of the latest Form ADV, Part II as filed with the Securities and Exchange Commission must be received from each respondent at the address stated above no later than 4:00 p.m. on October 15, 2012. Responses received after this date and time will not be considered. Finalists will be selected during the November 16, 2012 monthly Board of Trustees meeting. The System hopes to have an engagement date prior to December 31, 2012

**SECTION I - INTRODUCTION AND BACKGROUND**

A. Legal Authorization The System was created for the purpose of providing retirement benefits for the firefighters of the State of Oklahoma. The System’s statutory investment authority is set forth in 11 O. S., Section 49-100.9.

B. State Board The System is administered by the Oklahoma Firefighter Pension and Retirement Board. The State Board is comprised of thirteen members including the five (5) members of the Oklahoma State Firefighters Association Board of Trustees, the President of the Professional Firefighters of Oklahoma or designee, the President of the Oklahoma State Retired Firefighters Association or designee, the State Insurance Commissioner or designee, the Director of State Finance or designee, one member (1) appointed by the Speaker of the House of Representatives, one (1) member appointed by the President Pro Tempore of the Senate, and two (2) members appointed by the President of the Oklahoma Municipal League. **The members of the State Board shall not be contacted directly by respondents.**

C. Administrative Support The System has a staff of ten (10) persons supervised by an Executive Director. The Executive Director manages the day-to-day financial operations of the System. The Executive Director reports investment developments to the Investment Committee of the State Board as directed by the State Board. The Executive Director is Robert Jones.

The current master custodian is State Street Bank and Trust Company, Boston, Massachusetts. State Street also calculates investment performance of each manager and the total fund on a monthly basis.

D. Actuarial Condition The System’s actuary is Buck Consultants, Dallas, Texas. The July 1, 2011 actuarial valuation reported the actuarial value of assets at \$1.759 Billion and actuarial accrued liability at \$2.760 Billion. Funded ratio is calculated at 63.7%. The actuarial assumed interest rate is 7.5%

E. Investments The System is charged with the duty of administering the investment of approximately \$1.715 Billion, which represents the total pension funds of all the firefighters in the State of Oklahoma. The System uses only external investment managers. The current asset allocation target is 30% domestic large cap equity, 10% Long/Short Equity, 12.5% domestic small cap equity, 12.5% international equity, 20% core bonds, 7.5% Low Volatility Hedge Fund, and 7.5% real estate.

The System’s investment portfolio is currently managed by nineteen (19) external investment managers. The cash account, which is comprised of the cash positions of the external managers and the System’s administrative reserves, is managed by State Street Bank and Trust Company.

The portfolio managers along with investment market valuations as of July 31, 2012, are as follows:

1. Aronson & Partners, Philadelphia, PA	Domestic Large Value Equity	\$63,328,000
2. Attalus Capital, Philadelphia, PA	Long/Short Equity	\$37,642,000
3. Brandywine Asset Management, Philadelphia, PA	Global Fixed Income	\$161,733,000
4. Chautauqua Capital Management, Boulder, CO	International Equity	\$36,000,000
5. Delaware Investments, Philadelphia, PA	Domestic SMID Growth Equity	\$62,958,000
6. Earnest Partners, Atlanta, GA	Domestic SMID Value Equity	\$51,406,000
7. Fred Alger, New York, NY	Domestic Large Growth Equity	\$123,532,000
8. Grosvenor Capital Management, Chicago, IL	Long/Short Equity	\$80,908,000
9. Herndon Capital Management, Atlanta, GA	Domestic Large Value Equity	\$61,378,000

10. INTECH, West Palm Beach, FL	Domestic Large Core Equity	\$123,056,000
11. JP Morgan, New York, NY	Real Estate	\$60,085,000
12. Lord Abbett, Jersey City, NJ	Domestic Small Growth Equity	\$58,569,000
13. Portfolio Advisors, LLC, Darien, CT	Real Estate	\$16,460,000
14. River Road Asset Management, Louisville, KY	Domestic Small Value Equity	\$47,318,000
15. State Street Global Advisors, Boston, MA	Domestic Passive Large Equity Domestic Passive Fixed Income	\$220,678,000 \$179,345,000
16. TA Associates, Boston, MA	Real Estate	\$29,361,000
17. Thornburg Investment Management, Santa Fe, NM	International Equity	\$102,515,000
18. Wasatch Advisors, Salt Lake City, UT	Emerging Market	\$20,000,000
19. WCM Investment, Laguna Beach, CA	International Equity	\$36,000,000

In addition the System has contracted with ClairVest Asset Management LLC of San Diego, CA, to provide emerging market investment management services. Clair Vest will be funded in the amount of \$45,000,000.

## **SECTION II - QUALIFICATIONS OF THE INVESTMENT CONSULTANT**

- A. It is desirable that the consulting firm or its principals have been in the pension investment consulting business for at least five years and have a substantial number of clients in the public sector. If your firm has a policy of taking only a limited number of clients, please so state and explain.
- B. Please provide a list of personnel who would be assigned to the System's account. Please provide complete biographies.
- C. Provide the number of professional and support personnel in the office who would service the System's account.
- D. Provide a description of the current account load of the professionals to be assigned to the System's account. This description shall include a list of the clients the professionals currently handle, the size and nature of the accounts.
- E. Describe your firm's procedures for handling turnover of staff assigned to the System's account.
- F. Provide information regarding the firm's performance measurement universe, including the number of portfolios, investment managers, fixed income managers, equity managers, portfolios, and public pension plan portfolios. Provide the percentage of your data base that reflects actual data of manager performance measured by your firm.
- G. Describe your firm's capacity to perform investment manager searches. (Include in-house staff, data base, and the methodology utilized.)
- H. The firm shall supply the System with a description of the computer hardware and software utilized for performance evaluation. In particular, indicate if software was developed internally or purchased from an outside vendor. If purchased, identify vendor. The firm should supply the System with its past, current and projected expenditures for performance evaluation hardware and software development, and identify how long the performance evaluation software has been in place. Present future development plan programs for performance evaluation hardware and software.
- I. In the event the firm proposes to subcontract any service, explain the service and name the vendor. The System may require the same disclosure under this solicitation for any vendor or subcontractor of a respondent

J. If a finder's fee is paid in any form, please provide the nature of the relationship, and with whom.

**SECTION III - PURPOSES AND DUTIES OF THE CONSULTANT**

The selected investment consulting firm will provide, but not be limited to, the following services:

A. Currently, the System's investment consultant provides performance measurement services along with portfolio analysis and monitoring services. The State Board may, at its discretion, contract with the master custodian to provide performance analysis and monitoring. In either case, separate evaluations will be prepared on all the portfolios managed by each of System's external managers. Regardless of whether performance measurement and portfolio analysis is prepared by the master custodian or the investment consultant, the investment consultant will make the required presentation to the State Board. At a minimum, separate evaluations will be required covering the System's portfolio divided into the following asset classes:

Domestic Equities	International Equities	Fixed Income
Real Estate	Alternatives	Internally Managed Cash
Total Fund.		

For the global and international allocations, the impact of currency activity will also be evaluated.

Portfolio analysis and evaluation reports are to be prepared on a quarterly basis. The investment consultant should plan to interact directly with the custodian to obtain the data required to perform portfolio analysis and evaluation. At a minimum the investment consultant should be prepared to provide:

1. Quarterly evaluations for the most recent quarter, as well as year-to-date, one year, three-year and five-year rates of return. Evaluation of rates of return since inception should also be included.
2. Evaluations are to include total rates of return for each segment of the portfolio designated above and real rates of return, using the Consumer Price Index to measure the rate of inflation.
3. The firm will compare the System's performance with a universe of public funds of comparable size with similar investment objectives and restrictions, and to appropriate nationally recognized indices. The firm should define and identify the universe of comparable funds as well as the index or indices against which the fund will be compared. Include at least the following information: number of funds, asset mix of each fund, size of each fund, and type of funds. The firm should have a sufficient data base to measure performance by investment style. For each return measurement by style, the standard deviation of the group of comparatives should be provided.
  4. Reports will be furnished in quantity sufficient for the needs of the State Board and staff.
  5. Required methodology for analysis of investment manager portfolio performance should include:
    - a. Equity Portfolios: Quarterly investment style analysis, quarterly performance of each portfolio, including comparison to a board universe of equity managers, style peers, and selected market indices (e.g., S&P 500).
    - b. Fixed Income Portfolios: Quarterly performance of each fixed income portfolio against a broad universe of fixed income managers, and against selected bond market indices reflecting appropriate maturity and sector composition (e.g., Barkley Capital Intermediate Government/Corporate Bond Index, etc.).
    - c. Real Estate: Quarterly performance comparison to a broad universe of real estate funds (at least 150) and also to real estate style peers.
    - d. International. Quarterly performance of each international portfolio against a broad universe of international managers, style peers and against selected market indices (e.g. MSCI EAFE). The impact of currency activity will also be evaluated.

e. Risk-adjusted Performance: The candidate firm must have the capability to provide risk-adjusted measures of performance for each of the above asset classes.

B. The investment consultant will perform an asset allocation study as directed by the State Board no more than once each fiscal year ending June 30.

C. The investment consultant will provide assistance to the State Board and staff as requested, i.e., investment policies, S.E.C. regulations, portfolio analytics (by portfolio and composite portfolio) historical rates of return, and alternative investments.

D. The investment consultant will provide assistance in the selection of investment managers as requested by the State Board.

E. The investment consultant will assist in custodial services searches and/or securities lending services searches as requested by the State Board.

F. The investment consultant will review actuary policy, including cash flow/emerging liability analyses', funded status and the Board's funding policy, in order to integrate with investment policies.

G. The investment consultant will attend regularly scheduled monthly meetings of the State Board and the Investment Committee, and special meetings as may be requested by the State Board.

H. The selected investment consultant shall report directly to the State Board and the Executive Director of the System. However, the investment consultant will also bear the responsibility of maintaining direct communication with the System's staff, investment managers and master custodian.

I. The investment consultant will conduct special studies, including research and analysis of client specified topics relevant to the System's plan. (Upon request.)

J. The investment consultant will assist State Board and staff with the review and recommendation of changes or updates to investment objectives, policies and guidelines. (As needed.)

K. The investment consultant will keep abreast of important economic and financial developments, including accounting and legal changes. Financial and fiduciary impacts are to be reported to the State Board.

L. The selected investment consultant shall provide in-depth review of the activity of the investment managers to insure compliance with all aspects of the objectives, policies and guidelines approved by the State Board. The Consultant shall also evaluate and report on the commission recapture program and the securities lending program.

#### **SECTION IV - PERIOD OF CONTRACT**

The initial contract is anticipated to be for the period beginning the date the contract is executed through June 30, 2013. Thereafter, the contract may be renewed annually four times upon mutual agreement between the System and the consulting firm. The State Board reserves the right to terminate the contract upon 30 days notice, with or without cause.

#### **SECTION V - PREPARATION OF INVESTMENT CONSULTANT PROPOSALS**

The investment consultant's responses to this solicitation for a proposal shall be organized in the following manner:

A. Brief history of the firm.

B. A statement as to whether the firm has any financial relationship with any other organization such as an insurance company, brokerage firm, commercial bank, investment banking firm, etc. If so, with whom and where.

C. Response to Sections II and III of this solicitation.

D. Provide a detailed analysis of what your recommended asset allocation would be for a pension fund with the relevant characteristics of this System. In this regard, please specifically address your investment philosophy regarding the following issues (general noncommittal statements will not be appreciated):

1. Passive investing and the investment instruments to be used in passive investing such as ETFs,
2. Alternative investing, including but not limited to, hedge funds, private equity, real assets, commodities, and real estate,
3. Fund of funds vs. direct investing,
4. Liability-driven investing, and
5. Leveraged investing.

E. Please answer the following questions:

1. How many tax-exempt accounts does the firm service?
2. What is the size of the firms three largest tax-exempt accounts as of December 31, 2011?
3. Are your accounts serviced by teams or by individual consultants?
4. What is the average number of accounts per consultant?
5. What is the largest number of accounts handled by one consultant?
6. What was the number of new accounts acquired in each of the years 2007, 2008, 2009, 2010 and 2011 to present and their asset value?
7. What was the number of new accounts lost in each of the years 2007, 2008, 2009, 2010 and 2011 to present and their asset value?
8. If employed, would you acknowledge in writing that you are a fiduciary (as that term is defined by the Employee Retirement Income Security Act of 1974 ("ERISA"))?
9. Does your firm have an asset/liability modeling capability? If so, please describe how it would benefit the System and provide any reports you typically provide your clients.
10. Describe your portfolio optimization software, and provide reports typically issued to clients. Describe your methodology.
11. Describe your portfolio analytics capabilities, and provide reports typically generated for your clients. Please describe your investment style categories, and the analytics comprising each style.
12. How do you monitor consistency of style? Describe techniques you use to evaluate a manager's adherence to investment style and policy.
13. Describe techniques you use to attribute results to the manager's decisions.
14. Do you normally provide written narrative on manager performance, portfolio restructuring, guideline discrepancies, style deviations, etc.?

15. Describe the techniques you use to identify and monitor the use of derivatives by the investment managers.
16. Should a manager's performance prove to be unsatisfactory based on your evaluations, would you recommend a change? After what period of time? Please elaborate on your approach.
17. Provide a list with explanation of all reports routinely provided a client. (Attach samples.)
- F. Provide a statement of any other services the investment consultant believes must be performed to completely meet the System's needs. Provide a full list of services offered by your firm.
- G. Provide a statement of any expected tasks or contributions by the System (either the System's staff, external investment managers, or master custodian) necessary to provide documents or other data for use by the Investment Consultant.
- H. Define your transaction cost analysis.
- I. Do you charge direct or indirect fees for investment managers to be included in your firm's data base or in any manager searches that you conduct on behalf of your clients? What are the fees? How do you prevent conflicts of interest? Support your statements with appropriate documentation and appropriate DOL and/or SEC rulings, if any.
- J. Do you sell your investment manager data base information? Do you receive compensation directly or indirectly? How do you prevent conflicts of interest? Support your statements with appropriate documentation and appropriate DOL and/or SEC rulings, if any.
- K. Does your firm have a brokerage division or subsidiary or does a principal of your firm have an interest in an organization which introduces, executes or clears security trades? Do you receive compensation directly or indirectly? What is the compensation received by the brokerage division or subsidiary for clients of the firm for each of the last five years? How do you prevent conflict of interest? Support your statements with appropriate documentation and appropriate DOL and/or SEC rulings, if any.
- L. Disclose any litigation or investigations involving your firm currently pending or conducted with the last three years. Include nature of action and the outcome, if resolved.

#### **SECTION VI - FEE STRUCTURE**

- A. The firm shall provide to the System a single flat fee based upon the services requested in this document, based on hard-dollar arrangements. Please provide this fee in two manners: First, a fee reflective of the rates of return, performance and analytics performed by the master custodian and provided to you, and your firm providing the evaluation and all other items mentioned in this solicitation; and, second, if your firm receives raw data from the master custodian and calculates rates of return, performance measurement, portfolio analytics, the evaluation, and all other items mentioned in this solicitation. Travel and expenses will not be reimbursed separately. Include a statement as to whether the fee would be the same for all five years of the contract period.
- B. Identify any special one-time charges.
- C. All proposals must indicate that they are valid for a minimum of sixty (60) calendar days. This period may be extended by mutual agreement between the firm and the State Board.

#### **SECTION VII - SUMMARY**

- A. Please submit a list of three firms or accounts that you service and that staff may contact.
- B. Please submit a sample copy of your contract.
- C. Please provide any marketing material that is appropriate.

D. The State Board requests that, if the firm is selected to make a formal presentation, the person who will be the primary consultant contact to the System should be the main presenter. Since the System is interested in a team approach, inclusion of the group of people who will be assigned to the System's account is encouraged.

E. The State Board reserves the right to request additional information from any respondent and to accept or reject any or all bids without specifying the reasons for its actions. The State Board reserves the right to request additional bids. The selection of investment consultants for state retirement systems is specifically exempt from the Oklahoma Competitive Bidding Act. Further, the State Board specifically reserves the right to negotiate for lower fees at any time with any respondent.

F. The State Board also reserves the right to award all, part or none of this contract. The Board may elect to select more than one Investment Consultant and to divide the duties set forth herein between the selected Consultants.

G. The response to this solicitation by the successful firm will become a part of the consultant contract.