

**CITY AND COUNTY OF SAN FRANCISCO  
EMPLOYEES' RETIREMENT SYSTEM**

**REQUEST FOR PROPOSALS FOR**

**CONSULTING SERVICES FOR THE ALTERNATIVE INVESTMENTS  
PORTFOLIO OF THE CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES'  
RETIREMENT SYSTEM**

**DATE: APRIL 10, 2013**

**DEADLINE FOR SUBMISSION: MAY 3, 2013, 5:00 P.M. (PACIFIC TIME)**

# **City and County of San Francisco Employees' Retirement System**

## **Request for Proposals for**

### **CONSULTING SERVICES FOR THE ALTERNATIVE INVESTMENTS PORTFOLIO OF THE CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM**

#### **Table of Contents**

- I. Introduction
- II. Scope of Services
- III. Submission Requirements
- IV. Evaluation and Selection Criteria
- V. Schedule
- VI. Terms and Conditions for Receipt of Proposals
- VII. City Contract Requirements

#### **Appendices:**

- A. RFP Questions
- B. Required Vendor Forms: Listing and Internet addresses of Forms related to Chapters 12B, 12C, and 14B of the S.F. Administrative Code; Business Tax; and, Employer Identification Number.
- C. Standard Professional Services Contract
- D. SFERS Investment Policy Statement
- E. SFERS Alternative Investments Portfolio

## **Request for Proposals for**

### **Consulting Services for the Alternative Investments Portfolio of the City and County of San Francisco Employees' Retirement System**

#### **I. Introduction**

The City and County of San Francisco Employees' Retirement System ("SFERS") is soliciting proposals from qualified professional investment consulting firms to assist SFERS with strategic and tactical investment planning, market research, investment due diligence, portfolio monitoring, performance measurement and reporting for its alternative investments portfolio.

Established in 1922, SFERS is dedicated to securing, protecting and prudently investing pension trust (the "Trust") assets and administering benefit programs for over 52,000 active and retired member employees of the City and County of San Francisco. SFERS' Retirement Board and investment team oversee the investment of over \$16 billion in Trust assets in global public equities, fixed income and alternative investments.

SFERS' Retirement Board and investment team conduct all investment activities in accordance with applicable laws and in accordance with investment policies and procedures adopted by the Retirement Board and in the sole interest of Trust beneficiaries. The Retirement Board generally meets once a month to set policy, review investment performance and consider new investment opportunities as presented by SFERS' investment team.

Three firms currently provide investment consulting services to SFERS. The General Consultant has primary responsibility to serve as an advisor on matters related to Asset Allocation, Investment Policy, and the Public Markets portfolio (including global public equities and fixed income) as well as Trust policy implementation and oversight. The other two firms provide investment consulting services for the Private Markets portfolio (including private equity, real estate and other real assets). The Northern Trust Company serves as custodian for the assets of the Trust.

#### **II. Scope of Services**

SFERS is seeking a qualified firm to serve as a fiduciary to the Trust and provide non-discretionary investment consulting services for its alternative investments portfolio, which includes investments in the private equity asset class. SFERS invests in private equity primarily through limited partnership funds. Core private equity strategies include buyouts, growth capital, venture capital, distressed debt and restructuring / turnaround investing. Other investment strategies that may be pursued on an opportunistic basis include co-investments, secondary transactions and other credit-based strategies such as mezzanine financing. In addition to its private equity partnerships, SFERS has invested in other limited partnerships to pursue alternative investments in other asset classes, including real estate and other real assets, as well as fixed income. SFERS has established formal relationships with over 100 investment firms and has committed nearly \$6 billion to approximately 250 limited partnerships since the alternative investment portfolio was established in 1987.

The successful firm will not have discretionary authority with respect to Trust assets, but will serve as a fiduciary to SFERS in the provision of advisory services pursuant to the agreement. The general

scope of services is to provide SFERS with full-service non-discretionary alternative investment advisory and portfolio monitoring and reporting services.

Firms may submit proposals for:

- Advisory services only,
- Monitoring and reporting services only; or
- A combined proposal for both services.

The monitoring and reporting services are expected to include all limited partnerships within SFERS' portfolio (private equity, real estate, real assets, credit strategies, etc.)

#### **1. Alternative investments advisory services:**

- review and provide recommendations for SFERS' alternative investments strategy, including the review of appropriate asset class goals and objectives, asset allocation, cash flow forecasting, and investment pacing
- assist in the preparation of an annual strategic plan for the alternative investments program, including a discussion of target sub-strategies and markets
- review and periodically recommend updates to SFERS' alternative investments policies and procedures, as well as manager selection guidelines and criteria
- assist SFERS' investment team in evaluating investment opportunities, including meeting with investment managers and reviewing their qualifications and track records, reviewing, evaluating and negotiating key partnership terms, comparing the investment opportunities' attributes to SFERS' selection criteria and identifying any significant issues (including investment risks and concerns) to be addressed during the course of due diligence
- conduct full and independent due diligence reviews of potential investments which SFERS' investment team designates as high priority opportunities likely to be presented to the Retirement Board. Each review will be customized to address the pertinent issues concerning the particular investment opportunity and how it would fit within SFERS' existing portfolio. Due diligence procedures should include but not be limited to: reviewing the investment manager's investment strategy and organizational resources for the successful execution of the strategy; evaluating the quality, depth and stability of the investment manager's team, including conducting interviews with the key principals; assessing the investment manager's investment sourcing, due diligence, structuring, value-add, monitoring and reporting capabilities; reviewing and evaluating the investment manager's compensation and incentive structure as well as economic commitment to the partnership; visiting and touring the investment manager's key offices; reviewing relevant documents, including offering materials, the limited partnership agreement, and financial statements; requesting and reviewing other information, supplied in writing, relevant to the investment review that might otherwise not be provided by the investment manager, such as data supporting portfolio valuations, investment performance and relevant investment experience; analyzing and independently verifying investment performance and track record; conducting extensive third party due diligence, including reference checks on key principals and interviews with prior and present investors and former employees; interviewing senior executives of past portfolio companies to gauge their assessment of the investment manager's strengths and weaknesses; comparing the investment merits and concerns of the investment opportunity with relevant alternatives to determine whether SFERS is investing in the best available

opportunity; reviewing and evaluating the proposed terms, conditions and structure of the investment opportunity, and identifying, if appropriate, any terms or provisions that can or should be improved; and maintaining complete, written records of all due diligence items and procedures.

- work with SFERS' investment team to refine the due diligence process for analyzing prospective investment opportunities consistent with the highest fiduciary standards
- prepare and furnish to SFERS a written investment report that includes an investment recommendation and documents the results of the due diligence review. The report will contain a summary of the proposed investment and describe: the general partner's background, track record, and organization; the proposed investment strategy; the terms of the investment; the expected rate of return; the merits of the investment; any issues and concerns surrounding the investment and how they might be resolved; issues and provisions that should be subject to negotiation; and appropriateness of the investment for SFERS
- advise SFERS' investment team and legal counsel on the key business terms of investment opportunities and review of the transaction documentation to ensure that such terms are properly implemented and reflects key elements sought by sophisticated limited partners in today's marketplace, both for initial investments as well as proposed amendments to partnership agreements
- prepare and conduct overview presentations or educational workshops on the alternative investment asset classes that include a macro view of key managers, types of investments, trends, strategies, and key success factors. SFERS' current alternative investments asset classes include private equity and real estate, but could eventually include other real assets, absolute return strategies (hedge funds), and other investment areas
- prepare updates regarding market conditions as well as industry trends and developments that could affect the prospects, terms and structure of alternative investments
- perform periodic interim due diligence analysis on existing investments, taking into consideration the basis of the original recommendation, as well as changes which have taken place at SFERS, the investment managers, and in the market
- provide access to a database of alternative investment managers that includes data on investment strategies, firm organization, investors and performance; manager information should be available for a wide range of private equity managers including but not limited to domestic and international firms investing in buyouts, growth capital, venture capital, distressed debt and restructuring / turnaround strategies
- provide ongoing support and assistance in managing the alternative investments portfolio (including advising on any proposed modifications on partnership agreements) via quantitative and qualitative analyses, research and due diligence at the request of SFERS
- attend SFERS' Retirement Board meetings as requested by SFERS
- upon request by SFERS, act as an extension of SFERS' alternative investments team in the event of personnel disruptions at SFERS
- perform other services which may be required to ensure a successful alternatives investment program

## **2. Alternative investments portfolio monitoring services:**

- review and analyze each alternative investments capital call received by SFERS and certify in writing the accuracy and conformance thereof to the terms of the underlying limited partnership agreement prior to SFERS' funding of such capital call
- review and analyze each distribution notice received by SFERS and certify in writing the accuracy and conformance thereof to the terms of the underlying limited partnership agreement
- provide a software system providing SFERS with access to information on SFERS' alternative investment portfolio, including: 1) transaction documents related to SFERS' investment in each of the Partnerships including any limited partnership agreements or offering materials; 2) performance reports, financial statements and other related materials provided by investment managers which describe each of the partnerships' investment activities and overall performance of their respective investments; 3) all cash flows to and from SFERS' alternative investments partnerships including, but not limited to, capital calls, management fees, expenses and cash and stock distributions; 4) underlying portfolio company information including portfolio company cost, valuation, performance and classification (industry sector, geographic location)
- reconcile all cash flows, net asset values, and portfolio company information for alternative investments partnerships with SFERS' custodian bank on a quarterly basis; such reconciliation will be furnished to SFERS within thirty days of completion
- provide quarterly alternative investments portfolio reports that include information and analytics for each investment manager, fund partnership, strategy and the total portfolio; information should include vintage year, SFERS commitment, total fund commitments, contributions, distributions, market values and performance measures (IRR, MOIC, DPI, TVPI, etc.); comparisons to relevant Benchmark Indices should be included
- prepare and provide SFERS with two comprehensive alternative investments monitoring reports per year, one following the end of each calendar year (ending December) and one following the end of each fiscal year (ending June). Each report will be presented at a scheduled meeting of the Retirement Board and shall contain: 1) material portfolio developments; 2) alternative investments portfolio market value and funding status; 3) investment performance results and comparison versus relevant benchmarks; 4) portfolio composition / diversification by vintage year, investment sub-strategy, investment managers, industry sectors, and geography; and 5) other relevant information as the SFERS Retirement Board, investment team, and Consultant deem appropriate for monitoring of the alternative investments portfolio
- provide access to a database of alternative investment managers that includes data on investment strategies, firm organization, investors and performance; manager information should be available for a wide range of private equity managers including but not limited to domestic and international firms investing in buyouts, growth capital, venture capital, distressed debt and restructuring / turnaround strategies
- provide ongoing monitoring, performance measurement and cash flow analyses of the alternative investments portfolio and partnerships; provide portfolio monitoring reports on portfolio partnerships as requested by SFERS
- advise SFERS on the structuring and negotiation of provisions to be incorporated in the terms of a limited partnership agreement that specifically relate to monitoring, including

those provisions which govern the format, frequency, and scope of reports provided by general partners to SFERS, as a limited partner.

- attend SFERS' Retirement Board meetings as requested by SFERS
- perform other services which may be required to ensure a successful alternatives investment program.

### **III. Submission Requirements**

For the duration of the Request for Proposals process, the City and County of San Francisco Employees' Retirement System and the Retirement Board will enter into a "blackout" period during which communications and meetings between interested parties and SFERS employees and Board members related to the subject matter of this Request for Proposals and any interested party's response to this Request for Proposals will be prohibited. This blackout will continue until the review and hiring of a consulting firm is completed.

This blackout will enable SFERS to treat all respondents fairly during the Request for Proposals process and permit the unbiased review of responses.

Blackout conditions are outlined below:

- Interested parties are to refrain from face-to-face meetings or communications with SFERS employees and Board members (communications include telephone conversations, letters and email) except as provided in Section V(B)(2) herein;
- This blackout remains in effect until the successful bidder enters into a contractual agreement with SFERS; and
- Interested parties may meet with SFERS employees or a Board member only if the meeting is limited to discussions that are not related to this Request for Proposals or any interested party's response to this Request for Proposals. SFERS' Executive Director will be notified of such meetings and will maintain a log of all such meetings occurring during the "blackout" period for this Request for Proposals.

Nothing in this "blackout" policy shall limit an interested party, who is currently engaged by the Retirement System as a service provider, from engaging in all meetings and communications with SFERS employees required to effectively conduct the Retirement System's business under the existing engagement.

If you have any questions regarding the blackout conditions, please contact Robert Shaw, Interim Deputy Director for Investments, at (415) 487-7002.

#### **A. Time and Place for Submission of Proposals**

**Proposals must be submitted and received by 5:00 p.m. (Pacific Standard Time), on May 3, 2013 as follows: an electronic file via e-mail and eight (8) printed copies in a sealed envelope clearly marked "Alternative Investments Consulting Proposal".** Proposals may be mailed to:

Robert Shaw  
Interim Deputy Director for Investments  
City and County of San Francisco Employees' Retirement System  
Attn: Alternative Investments Consulting Proposal  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102  
e-mail: [bob.shaw@sfgov.org](mailto:bob.shaw@sfgov.org)

## **B. Format and Content of Proposals**

COMPLETENESS, CLARITY, AND BREVITY ARE IMPORTANT. CANDIDATES SHOULD SUBMIT ALL INFORMATION REQUESTED IN THIS RFP IN THE SPECIFIED FORMAT. RESPONSES NOT MEETING FORMAT REQUIREMENTS OR THAT ARE INCOMPLETE IN ANY WAY MAY BE REJECTED. CANDIDATES ARE URGED TO READ THIS RFP CAREFULLY, TO TAKE CARE IN THE PREPARATION OF RESPONSES, AND TO CAREFULLY PROOFREAD THE FINAL VERSIONS FOR ACCURACY AND COMPLETENESS.

The Candidate's response to this request for proposal must be organized in the format listed below and detailed in Appendix A:

1. Introduction and Executive Summary
2. Firm Organization, Personnel and Clients
3. Investment Selection Philosophy and Due Diligence Practice
4. Strategic and Tactical Investment Planning
5. Monitoring, Performance Management and Reporting
6. Fee Proposal

SFERS intends to award this contract to the firm (or firms) that it considers will provide the best overall program services. SFERS reserves the right to accept other than the lowest priced offer and to reject any proposals that are not responsive to this request.

## **IV. Evaluation and Selection Criteria**

### **A. Minimum Qualifications - Unless otherwise indicated, all qualifications must be met as of December 31, 2012.**

The Proposer must meet all of the following minimum qualifications, to SFERS' satisfaction, to be given further consideration for a contract award. The Proposer within the response to this RFP must establish minimum qualifications. Failure to satisfy all of the minimum qualifications, based on SFERS' sole judgment, will result in the rejection of the proposal.

1. As of December 2012, the firm must have been in business at least five years providing services similar to those described in the Scope of Services section.



2. At least one key professional member of the firm assigned to SFERS' account must have a minimum of ten years experience recommending for investment, or investing in, private equity partnerships and alternative investment programs for institutional clients.
3. At least one key professional member of the firm assigned to SFERS' account must have a minimum of five years analyzing and monitoring the results of private equity partnerships for institutional clients.
4. At least one key professional member of the firm assigned to SFERS' account must have a minimum of five years experience in reviewing partnership agreements, and other legal documents associated with investment partnerships for institutional clients.
5. The primary senior consultant assigned to SFERS must commit sufficient amount of his or her available time to quickly become thoroughly knowledgeable and up-to-date with the SFERS alternative investments portfolio and provide superior quality work while meeting all timelines established by SFERS' staff.
5. The firm must maintain, or have unrestricted access to, a database of sufficient size and scope to complete the analysis of the returns of a significant number of alternative investment partnerships by structure, size, industry, geography, type, and stage of development.
6. The organization must have been providing investment management services for alternative investment transactions for five or more years and have at least two pension fund or other major institutional fund clients with a minimum of \$1 billion in total assets, including a minimum of \$300 million in global private equity assets.
7. The firm must carry Errors and Omissions Insurance coverage or must have applied for such coverage by the submission date of the RFP. E&O insurance will be required throughout the duration of the contract.

## **B. Selection Criteria**

The proposals will be evaluated by a selection committee comprised of evaluators with expertise in Alternative Investments. SFERS intends to evaluate the proposals relative to each other generally in accordance with the criteria and weighting percentages itemized below.

<u>Component</u>	<u>Weighting Percentage</u>
1. Organization, Personnel and Clients	20%
2. Investment Selection and Due Diligence Practice	20%
3. Strategic and Tactical Investment Planning	20%
4. Monitoring, Performance Measurement and Reporting	20%
5. Fee Proposal	20%

## V. Schedule

### A. Schedule of Events

<u>Action</u>	<u>Date</u>
RFP is advertised and issued	<b>April 12, 2013</b>
Deadline to submit written questions and requests for interpretation	<b>April 19, 2013</b>
Response to written questions to be provided to all participants	<b>April 26, 2013</b>
<b>Deadline for Submission of Proposal</b>	<b>May 3, 2013</b>
Review of proposals, selection of finalists	<b>May 24, 2013</b>
Retirement Board approval to interview finalists	<b>June 12, 2013</b>
Retirement Board approval of Successful Proposer	<b>July, 10 2013</b>
Contract, Fee and Guideline negotiations commence	<b>To be determined</b>
New Contract takes effect	<b>To be determined</b>

### B. EXPLANATION OF EVENTS

1. Release of RFP – the RFP will be advertised and posted in the City’s Bid and Opportunity newsletter as well as SFERS’ website ([www.SFERS.org](http://www.SFERS.org)). All firms meeting minimum qualifications, as stated in Section IV, will be welcome to participate.
2. The City will keep a record of all parties who request and receive copies of the RFP. Any requests for information concerning the RFP must be in writing, and any substantive replies will be issued as written addenda to all parties who have requested and received a copy of the RFP from SFERS. No questions or requests for interpretation will be accepted after April 19, 2013.

In preparing their responses, candidates should rely only on written material concerning this RFP issued by SFERS.

3. SFERS will respond to all candidates’ written questions by April 26, 2013.

**Deadline for submission of the RFP response is  
5:00 PM, Pacific Time, May 3, 2013.  
No exceptions to this deadline will be granted.**

4. A committee comprised of SFERS’ staff will interview finalists at SFERS’ offices in San Francisco (dates to be determined). SFERS expects that the portfolio manager and client service officer assigned to its account will make the final presentation and candidates would be advised

to mark their calendars accordingly. ***SFERS reserves the right to change the date for these interviews at any time for any reason.***

5. All proposals submitted will be considered public documents. Any material that the candidate considers “Business-Confidential” should be so marked on the proposal.

### **C. Contract Award**

To be considered, all proposals must comply with the requirements and specifications outlined in this RFP.

During contract negotiations, if SFERS or its agent is unable to agree to contract terms with the Proposer receiving the highest evaluation in this RFP process, SFERS reserves the right to terminate contract negotiations with that Proposer without undertaking another RFP process, and to negotiate with the Proposer receiving the next highest evaluation.

1. Termination – This RFP in no manner obligates SFERS or any of its agencies to the eventual procurement of services described, implied or which may be proposed, until confirmed by a written contract. Progress toward this end is solely at the discretion of SFERS and may terminate at any time prior to the signing of a contract.

SFERS reserves the right to cancel this RFP at any time and to reject any and all proposals submitted in response to this RFP, if SFERS determines such action or actions are in its best interest.

2. Proposal Applicability – To allow sufficient time for contract negotiation, all fees and conditions stated in the proposal must be firm for a period of 120 days from the deadline for submission of proposals.
3. Negotiation Requirements – SFERS reserves the right to negotiate a change in terms if, in its sole opinion, the representatives assigned by the investment manager are not adequately meeting SFERS’ needs for this contract.
4. Legal Review – SFERS expects that all candidates will agree to be bound by the terms and conditions articulated in this RFP. For this reason, it is strongly recommended that Proposers have the terms and conditions contained herein reviewed with corporate counsel and that concerns be brought to the attention of SFERS staff in a timely manner.
5. Governing Law – This procurement and any agreement with Proposers that may result shall be governed by the laws of the State of California and the City and County of San Francisco. Submission of a proposal constitutes acceptance of this condition.
6. Basis for Proposal – Only information supplied by the SFERS staff in writing or in this RFP should be used in the preparation of proposals.

7. Proposal Preparation Cost – Any cost incurred by the Proposer in the preparation, transmittal or presentation of any proposal or material submitted in response to this RFP will be borne solely by the Proposer.
8. Proposer Qualification – SFERS may take such investigations as necessary to determine the ability of the Proposer to adhere to the items as identified within the questionnaire portion of this RFP. SFERS reserves the right to reject the proposal of any Proposer who, in SFERS' opinion, is not a responsible candidate as defined below:

“Responsible candidate” means a candidate who submits a complete proposal and who has furnished, when required, information and data to prove that its financial resources, production and service facilities, personnel, service reputation and experience are adequate to make satisfactory delivery of the services described in the proposal.
9. Non-Discrimination in Contracts - All contracts are subject to the non-discrimination ordinance of the City and County of San Francisco. Contractors should note the provision prohibiting discrimination by contractors in the provision of benefits between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees.

## **VI. Terms and Conditions for Receipt of Proposals**

### **A. Errors and Omissions in RFP**

Proposers are responsible for reviewing all portions of this RFP. Proposers are to promptly notify the SFERS, in writing, if the Proposer discovers any ambiguity, discrepancy, omission, or other error in the RFP. Any such notification should be directed to SFERS promptly after discovery, but in no event later than five working days prior to the date for receipt of proposals. Modifications and clarifications will be made by addenda as provided below.

### **B. Inquiries Regarding RFP**

Inquiries regarding the RFP and all requests for written modification or clarification of the RFP, must be directed in writing to:

Robert Shaw  
Interim Deputy Director for Investments  
City and County of San Francisco Employees' Retirement System  
Attn: Alternative Investments Consulting RFP  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102  
Fax: (415) 487-7002  
E-mail: [bob.shaw@sfgov.org](mailto:bob.shaw@sfgov.org)

### **C. Addenda to RFP**

SFERS may modify the RFP, prior to the proposal due date, by issuing written addenda. Addenda will be sent via regular, first class U.S. mail to the last known business address or by electronic means to the last provided email address of each firm listed with SFERS as having received a copy of the RFP for proposal purposes. SFERS will also post to its website ([www.SFERS.org](http://www.SFERS.org)) any written addenda. SFERS will make reasonable efforts to notify Proposers in a timely manner of modifications to the RFP. Notwithstanding this provision, the Proposer shall be responsible for ensuring that its proposal reflects any and all addenda issued by SFERS prior to the proposal due date regardless of when the proposal is submitted. Therefore, the SFERS recommends that the Proposer call SFERS before submitting its proposal to determine if the Proposer has received all addenda.

#### **D. Term of Proposal**

Submission of a proposal signifies that the proposed services and prices are valid for 120 calendar days from the proposal due date and that the quoted prices are genuine and not the result of collusion or any other anti-competitive activity.

#### **E. Revision of Proposal**

A Proposer may revise a proposal on the Proposer's own initiative at any time before the deadline for submission of proposals. The Proposer must submit the revised proposal in the same manner as the original. A revised proposal must be received on or before the proposal due date.

In no case will a statement of intent to submit a revised proposal, or commencement of a revision process, extend the proposal due date for any Proposer.

At any time during the proposal evaluation process, SFERS may require a Proposer to provide oral or written clarification of its proposal. SFERS reserves the right to make an award without further clarifications of proposals received.

#### **F. Errors and Omissions in Proposal**

Failure by SFERS to object to an error, omission, or deviation in the proposal will in no way modify the RFP or excuse the vendor from full compliance with the specifications of the RFP or any contract awarded pursuant to the RFP.

#### **G. Financial Responsibility**

SFERS accepts no financial responsibility for any costs incurred by a firm in responding to this RFP. Submissions of the RFP and associated materials will become the property of SFERS and may be used by SFERS in any way deemed appropriate.

#### **H. Proposer's Obligations Under the Campaign Reform Ordinance**

Proposers must comply with Section 1.126 of the S.F. Campaign and Government Conduct Code, which states:

No person who contracts with the City and County of San Francisco, for the rendition of personal services, for the furnishing of any material, supplies or equipment to the City, or for selling any land or building to the City, whenever such transaction would require approval by a City elective officer, or the board on which that City elective officer serves, shall make any contribution to such an officer, or candidates for such an office, or committee controlled by such officer or candidate at any time between commencement of negotiations and the later of either (1) the termination of negotiations for such contract, or (2) three months have elapsed from the date the contract is approved by the Retirement System or the board on which a City elective officer serves.

If a Proposer is negotiating for a contract that must be approved by an elected local officer or the board on which that officer serves, during the negotiation period the Proposer is prohibited from making contributions to:

- the officer's re-election campaign
- a candidate for that officer's office
- a committee controlled by the officer or candidate

The negotiation period begins with the first point of contact, either by telephone, in person, or in writing, when a contractor approaches any city officer or employee about a particular contract, or a city officer or employee initiates communication with a potential contractor about a contract. The negotiation period ends when a contract is awarded or not awarded to the contractor. Examples of initial contacts include: (i) a vendor contacts a city officer or employee to promote himself or herself as a candidate for a contract; and (ii) a city officer or employee contacts a contractor to propose that the contractor apply for a contract. Inquiries for information about a particular contract, requests for documents relating to a Request for Proposal, and requests to be placed on a mailing list do not constitute negotiations.

Violation of Section 1.126 may result in the following criminal, civil or administrative penalties:

(a) Criminal. Any person who knowingly or willfully violates section 1.126 is subject to a fine of up to \$5,000 and a jail term of not more than six months, or both.

(b) Civil. Any person who intentionally or negligently violates section 1.126 may be held liable in a civil action brought by the civil prosecutor for an amount up to \$5,000.

(c) Administrative. Any person who intentionally or negligently violates section 1.126 may be held liable in an administrative proceeding before the Ethics Commission held pursuant to the Charter for an amount up to \$5,000 for each violation.

For further information, Proposers should contact the San Francisco Ethics Commission at (415) 581-2300.

## **I. Sunshine Ordinance**

In accordance with S.F. Administrative Code Section 67.24(e), contractors' bids, responses to RFPs and all other records of communications between the City and persons or firms seeking contracts shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefits until and unless

that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

#### **J. Public Access to Meetings and Records**

If a Proposer is a non-profit entity that receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the S.F. Administrative Code, the Proposer must comply with the reporting requirements of that Chapter. The Proposer must include in its proposal (1) a statement describing its efforts to comply with the Chapter 12L provisions regarding public access to Proposer's meetings and records, and (2) a summary of all complaints concerning the Proposer's compliance with Chapter 12L that were filed with the City in the last two years and deemed by the City to be substantiated. The summary shall also describe the disposition of each complaint. If no such complaints were filed, the Proposer shall include a statement to that effect. Failure to comply with the reporting requirements of Chapter 12L or material misrepresentation in Proposer's Chapter 12L submissions shall be grounds for rejection of the proposal and/or termination of any subsequent Agreement reached on the basis of the proposal.

#### **K. Reservations of Rights by SFERS**

The issuance of this RFP does not constitute an agreement by SFERS that any contract will actually be entered into by SFERS. SFERS expressly reserves the right at any time to:

- 1) Waive or correct any defect or informality in any response, proposal, or proposal procedure;
- 2) Reject any or all proposals;
- 3) Reissue a Request for Proposals;
- 4) Prior to submission deadline for proposals, modify all or any portion of the selection procedures, including deadlines for accepting responses, the specifications or requirements for any materials, equipment or services to be provided under this RFP, or the requirements for contents or format of the proposals;
- 5) Procure any materials, equipment or services specified in this RFP by any other means; or
- 6) Determine that no project will be pursued.

#### **L. No Waiver**

No waiver by SFERS of any provision of this RFP shall be implied from any failure by SFERS to recognize or take action on account of any failure by a Proposer to observe any provision of this RFP.

## **M. Local Business Enterprise Participation**

SFERS strongly encourages proposals from qualified Local Business Enterprises (LBEs) as defined in Chapter 14.B of the San Francisco Administrative Code. If you desire to participate in the City's Local Business Enterprise Program, which helps certain financially disadvantaged businesses increase their ability to compete effectively for City contracts, go to the "Qualify to do Business" tab on the Office of Contract Administration website at [www.sfgsa.org](http://www.sfgsa.org) for details and required forms.

## **N. Chapter 12B and 12C: Nondiscrimination in Employment and Benefits**

Chapter 12B and 12C of the San Francisco Administrative Code are incorporated by reference as though fully set forth herein. Chapters 12B and 12C prohibit discrimination by City contractors in employment, the use of property, the provision of public accommodations and in the provision of benefits to employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees.

Please refer to Appendix B regarding the requirements of San Francisco Administrative Code Chapters 12B and 12C.

## **O. Conflicts of Interest**

The successful proposer will be required to agree to comply fully with and be bound by the applicable provisions of state and local laws related to conflicts of interest, including Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California. The successful proposer will be required to acknowledge that it is familiar with these laws; certify that it does not know of any facts that constitute a violation of said provisions; and agree to immediately notify the City if it becomes aware of any such fact during the term of the Agreement.

Individuals who will perform work for the City on behalf of the successful proposer might be deemed consultants under state and local conflict of interest laws. If so, such individuals will be required to submit a Statement of Economic Interests, California Fair Political Practices Commission Form 700, to the City within ten calendar days of the City notifying the successful proposer that the City has selected the proposer.

## **VII. Contract Requirements**

### **A. Standard Contract Provisions**

The successful Proposer will be required to enter into a contract substantially in the form of the Agreement for Professional Services, attached hereto as Appendix C. Failure to timely execute the contract, or to furnish any and all certificates, bonds or other materials required in the contract, shall be deemed an abandonment of a contract offer. The City, in its sole discretion, may select another firm and may proceed against the original selectee for damages. Full text of all referenced San Francisco municipal codes can be viewed on-line at [www.sfgov.org](http://www.sfgov.org) at the *Municipal Codes* link under the City Resources section of the San Francisco homepage.

### **B. Required Standard City Forms**



Before the City can award any contract to Proposer, the Proposer must file three mandatory standard City forms with the Retirement System. The required forms are:

1. Form P-25 - Business Tax Declaration;
2. HRC Form 12B-101 – Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits; and
3. IRS Form W-9 – Request for Taxpayer Identification Number and Certification.

Complete descriptions of these required forms are available at the “Qualify to do Business” tab of the Office of Contract Administration website at [www.sfgsa.org](http://www.sfgsa.org) or in Appendix B of this RFP.

The three required forms are to be submitted under separate cover at the time you submit the proposal. If these forms are not filed at the time you submit your proposal, the proposal may be determined to be non-responsive and rejected.

Please submit one copy of the above forms at the time you submit your proposal. The forms should be submitted under separate cover in a separate, sealed envelope addressed to:

Jim Burruel, Finance Manager  
San Francisco Employee’s Retirement System  
Attention: Alternative Investment Consulting Services RFP  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102

If a Proposer has previously completed and submitted the required forms to the Retirement System, the Proposer should not do so again unless the Proposer’s answers have changed.

## Appendix A RFP Questions

### **Introduction and Executive Summary**

Submit a letter of introduction and executive summary of the proposal. A person authorized by your firm to obligate your firm to perform the commitments contained in the proposal must sign the letter. Submission of the letter will constitute a representation by your firm that your firm is willing and able to perform the commitments contained in the proposal.

### **I. Firm Organization, Personnel and Clients (20%)**

#### **A. Organization**

1. Please provide the following information about your organization:
  - a) An overview of the firm, including its history and any special expertise or experiences that would be relevant to SFERS.
  - b) A description of the ownership structure of the firm, which includes the parent company and any affiliated companies, joint ventures, and strategic alliances. If any near-term changes to the firm's corporate or organizational structure are anticipated, please also note them.
  - c) A list of all the owners of the firm (from largest to smallest with respect to ownership) and their ownership percentages. Please include individuals and all other entities.
  - d) A description of the firm's organizational structure, including all operating divisions and functional areas, and the number of employees within each area.
  - e) The location of the firm's headquarters and branch offices.
  - f) A current company Annual Report.
  - g) A copy of the firm's Mission Statement
  - h) Insurance coverage and limits for Errors and Omissions Insurance, General Liability Insurance, and other insurance coverage as identified in the attached sample.
  - i) Equal Employment Opportunity Employer Information Report Form EEO-1 on Workforce Composition (Section D).
2. Within the past three years, have there been any significant developments in your organization, such as changes in ownership, personnel, or any form of reorganizations?
3. How many years has your firm provided alternative investment consulting services to public pension plans? Other institutional investors?
4. Please list all services provided by the firm not related to Alternative Investments and the nature thereof.
5. As of December 31, 2012, please list the dollar revenue received by the firm for each of the past 5 years, grouped by 1) Consulting Services, 2) Asset Management, and 3) Other

Sources of Revenue. If the firm has an ultimate parent company, please list the percentage of total income that the firm's consulting services represent to the ultimate parent company for each of those years.

6. Does the firm, its affiliates, or the ultimate parent of the firm receive revenues, or any form of economic, business, or other form of indirect compensation, from investment managers or general partners for consulting services provided, software sold, attendance at conferences, access to manager databases, or for any other reason? If so, for 2012, please list the names of all such sources of revenue as well as the dollar amounts received from each entity.
7. Please provide the dollar amount and nature of all material beneficial relationships that the firm or any affiliate of the firm, engages in with investment manager clients or general partner relationships?
8. Describe all relationships with investment managers where your firm or an affiliate receives revenues, non-cash, or in-kind benefits.
9. Describe all financial relationships with placement agents.
10. Describe any other circumstance where you or an affiliate will receive revenues, non-cash, or in-kind benefits in connection with an investment by SFERS.
11. Describe any real or potential conflict arising from any business arrangement by your firm or an affiliate that competes with the interests of SFERS in a specific transaction it is considering and how your firm will manage them.
12. Does the firm or any employee of the firm invest their own capital in investment opportunities that they also recommend for clients? If yes, please explain how potential conflicts that arise from these activities are mitigated.
13. Please describe the firm's conflict of interest policy. Please include an explanation of how this policy, and any other measures taken by the firm, limits the likelihood that the client could receive investment advice that is not completely objective. Please provide the firm's Code of Ethics.
14. Does the firm serve as an investment manager for clients?
15. Does the firm sponsor fund of funds? If so, describe your fund of funds by year raised, size of fund, and focus of fund.
16. Please detail any existing or potential conflicts between your consulting activities and any other firm's or client's activities.
17. Please explain in detail any potential conflicts of interest that would be created by the firm's representation of SFERS. Please include any activities of affiliated or parent organizations as well as other client relationships that may affect services to SFERS.

18. Please acknowledge in writing the following:  
Our organization is a person, firm, or corporation registered as an investment advisor under the Investment Advisor Act of 1940. Yes/No; if yes, provide a copy of the latest Form ADV Parts I and II. If no, please explain why your firm is exempt from registration.
19. Within the last five years, have your organization, employees, officers, or principals been involved in any business litigation or other legal proceeding relating to your consulting/advisor activities? In addition, has your organization been investigated by federal or state licensing or regulatory authorities? If so, provide an explanation and indicate the current status.
20. Provide levels of coverage for fidelity bonds, errors and omissions coverage, and other fiduciary coverage that your organization carries; include the name and address of the carrier(s).
21. Is the firm a fiduciary as described by ERISA? Is your firm willing to commit to serving in a fiduciary capacity?
22. Describe your future business plans with regard to Alternative Investment consulting. Discuss the total number of accounts and assets that will be accepted. What is the average number of clients per consultant? How frequently do consultants tend to interact by telephone and in person with their clients? What is the average asset value under management per consultant? If growth is anticipated, how will the organization control the quality of service to clients? Identify the plans for additions to professional staff in relation to growth of accounts or assets.
23. What do you consider to be your firm's alternative investment consulting specialties, strengths, and limitations? Describe your firm's competitive advantage over other alternative investment advisors.
24. Describe any significant innovations your firm has made in consulting for institutional investors in the Alternative Investment asset class. Include names of key staff involved in these developments.
25. Does your firm perform industry or asset class analyses that have been provided to clients? If so, please submit an example of your work.
26. Include a description of the research and other technical resources, including on-line databases and computer based analytical tools that you make available for your clients.

## **B. Personnel**

27. Please identify the name(s) and office location of the primary individual(s) who would perform the requested services for SFERS. Please be sure to identify the back-up consultant (in instances when the proposed lead is unavailable) and those individuals who would be involved in due diligence and research assignments for the SFERS

account. For each person, please also provide a full resume as well as the following information:

Name:

Title:

Role:

Office location:

Percent (%) of time spent on alternative assets:

Educational qualifications:

Spoken and written language proficiencies:

Tenure at firm:

Years of alternative asset experience:

Years of consulting experience:

Years of overall investment experience:

Other firm duties (e.g. research/due diligence) and percent of time spent on such duties:

Total current number of assigned accounts:

Name, plan type, length of relationship, and size of each assigned client account.

28. Provide an estimate of the percentage of time the lead consultant, as well as other dedicated consultants, will spend on SFERS account.
29. Explain how the team dedicated to the SFERS' account would function, including primary consultants, back up, research, due diligence, monitoring, etc
30. Describe how responsibilities are delegated within the organization and how staff is evaluated.
31. What policies are in effect to control the workload as it relates to the number of clients serviced by each consultant? Is there a limit on the number of accounts that a consultant may handle?
32. Please indicate the turnover of alternative asset professional staff over the past five years as follows:

Name	Position	Years with the Firm	Date Left	Reason for Leaving

33. Please provide a brief description of the firm's compensation arrangements for professional staff, including any incentive bonuses, sharing of profits and/or equity ownership. Specific compensation amounts need not be presented. What incentives are used to ensure key professionals do not leave the firm either as a group or individually?

34. Please describe the team's experience orally presenting investment recommendations to governmental boards of trustees or similar bodies. What other types of public speaking engagements and experiences do individuals possess?
35. Please describe the team's ability to educate trustees on alternative investment matters. What experience do the individuals have conducting educational workshops? What types of research materials does the firm develop or have available for clients? Please provide examples of educational materials utilized for client presentations.
36. How large is your organization [number of professional/administrative/technical support staff]? Who are the key people in your organization? Why are they key? How long have they worked together?

	2008	2009	2010	2011	2012
<b>Firm Administrative Personnel</b>					
<b>Firm Technical Personnel</b>					
<b>Firm Investment Professionals</b>					
<b>Firm Total Other Professionals</b>					

### C. Clients

37. Please provide the following information about the firm's alternative asset clients over the past four years (As of December 31).

	2008	2009	2010	2011	2012
Total Non-Discretionary Retainer Clients					
Total Non-Discretionary Assets under Advisement					
Total Non-Discretionary Assets Invested					
Total Discretionary Separate Account Retainer Clients					
Total Discretionary Separate Account Assets under Advisement					
Total Discretionary Separate Account Assets Invested					
Total Single-Investor Fund-of-Funds Clients					
Total Multi-Investor Fund-of-Funds Clients					
Total Fund-of-Fund Assets under Advisement					

38. Please provide the following client information, by plan size and plan type, of those clients for which the firm currently serves in a retainer relationship. Please list the client by total plan size not by allocation to alternative assets.

	Less than \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$5 Billion	\$5 Billion to \$15 Billion	\$15 Billion to \$50 Billion	Over \$50 Billion	Total
Public Employees Retirement							
Union/Taft-Hartley							
Corporate (DB only)							
Corporate (Hybrid or DC only)							
Endowment							
Foundation							
Hospital							
Insurance							
Other							
Total:							

39. Provide the following information about clients for which the firm currently consults on an advisory basis or has discretionary management authority (excluding fund-of-funds).

Name of Client	Client Type	Date Retained (Mo/Year)	Non-Discretionary / Discretionary	Assets Under Management (\$Million)	Investment Focus	Partnerships/ Direct

40. Please list clients lost in the last 5 years (excluding fund-of-fund clients). Were any of these clients lost due to conflict of interest? If yes, please explain.

Name of Client	Client Type	Date Left (Mo/Year)	Non-Discretionary/ Discretionary	Reason Left

41. Please list the Primary Consultant (s)' current clients and engagements by asset size, type of client and type of engagement (e.g. general consulting, monitoring and reporting, project-based service). Indicate what steps will be taken to assure that the Primary Consultant (s) has time to dedicate to SFERS.
42. Please identify three clients as references for whom your firm has provided non-discretionary alternative investment consulting services (Identify as Exhibit #1). Please provide contact information, number of years as a client, and size and type of Alternative Investment program. Assume these clients will be contacted.
43. If relevant, please identify three clients as references for whom your firm has provided discretionary alternative investment consulting services. Please provide contact information, number of years as a client, and size and type of Alternative Investment program. Assume these clients will be contacted.
44. Does your firm have a formalized process of collecting feedback on customer satisfaction? If so, what metrics are captured? What have been the results for the past three years? What changes have been implemented as a result of feedback?
45. Please list and describe your firm's history, if any, of managing fund of funds or any investment funds. Comment on your fee structure for managing fund of funds or other investment funds for clients.

## **II. Investment Selection/Due Diligence (20%)**

45. What is your firm's competitive advantage in providing alternative investment consulting services to SFERS?
46. Discuss your firm's tracking system for prospective investments.
47. What alternative investment sectors are followed in your investment tracking system?
48. Describe your coverage of U.S. vs. Non U.S. alternative investments. What resources does the firm utilize in sourcing and monitoring investments outside the U.S.?
49. Describe the research capabilities of your firm. Provide an example of a research report prepared by your firm.
50. How many funds/ managers do you maintain in your manager search database?
51. How many years of performance data are in the system for prospective investments?
52. How are managers added to your database?
53. What criteria do you use in evaluating each manager for inclusion? List screening steps and fundamental requirements.



54. What quantitative and qualitative criteria are maintained on both managers and investment opportunities?
55. Describe how your organization sources new investment opportunities. Explain how investment recommendations are identified and monitored within your organization. Specify how your data is generated.
56. Provide a copy of your firm's tracking report (Identify as Exhibit #2).
57. During the years 2010, 2011, and 2012 how many investment opportunities (firms) did your organization:
  - A. review,
  - B. meet with,
  - C. conduct due diligence on,
  - D. ultimately recommend or invest in for the benefit of either clients or your organization?
58. Describe your organization's process when offering alternative investment recommendations to clients.
59. How would your organization measure and compare relative differences of risk and return among funds/partnerships?
60. How does your organization identify top tier firms?
  - A. Explain your relationship with these groups.
  - B. Provide a list of top tier managers your organization monitors.
  - C. What qualifies a firm to be categorized as "top tier"?
  - D. How often is this list updated?
  - E. Describe your clients' success in gaining access to these funds.
61. Explain your organization's ability to identify first time/nascent/emerging funds.
62. Does your firm have a policy regarding emerging management firms? If so, please describe in detail.
63. Describe your external alternative investment research resources, if any, and how the information obtained is utilized by your organization.
64. Describe your internal alternative investment research capability, if any, and how the information generated is used in advising your clients.
65. Provide a detailed description of due diligence and decision making process for selecting investments in the following areas:

- A. Venture Capital
- B. Buyouts
- C. Special Situations
- D. Mezzanine Financing
- E. Distressed Debt
- F. International Investments
- G. Natural Resources (including oil and gas, timber, and agricultural property)
- H. Hedge Funds
- I. Fund of Funds
- J. Secondary Investments
- K. Co-investments and
- L. Direct Investments.

This should include a ranking of the criteria and the standards (both objective and subjective) used to evaluate aspects of the partnerships under consideration. What is the relative importance of each parameter? Provide an example of the firm's due diligence questionnaire for each of these areas.

66. List the types of funds on which you have conducted due diligence. What types of funds have presented the most challenges?
67. How do you verify manager provided information? Do you contract for criminal or other background checks?
68. Attach a copy of the two most recent investment recommendation memos your organization has provided to clients. If you provide clients with investment rejection memos, please attach a recent example.
69. Describe how investment opportunities are allocated among clients and/or fund of funds sponsored by your firm. Please indicate specifically how investment opportunities are (will be) allocated among non-discretionary advisory clients, discretionary advisory clients and fund-of-funds. Please state whether any clients or funds have preference or priority. Do prior relationships factor into the firm's allocation policy? If so, how do they impact allocation policy and investment prioritization? If the firm maintains an investment queue, provide details on how the queue functions.
70. If your organization manages alternative investment funds, how do you handle due diligence and formulating investment recommendations for investments that may compete with your organization?
71. How does your firm handle the situation wherein a client is interested in making an investment and, after conducting due diligence, your firm is unwilling to recommend such investment?
72. List your 10 largest general partner relationships on behalf of the firm's clients.

### III.Strategic and Tactical Investment Planning (20%)

73. Briefly describe your firm's market outlook for the Alternative Investment markets.
74. What investments does your organization consider to be alternative investments? Of those, on which ones does your organization consult?
75. What are the different alternative asset segments (venture capital, buyouts, mezzanine, special situations, etc.) that the firm will typically consider when planning an investment program? Would the firm describe itself as more "bottom-up" or "top-down" in portfolio construction?
76. Describe the firm's experience in analyzing and recommending the following types of alternative investments
- A. Venture Capital
  - B. Private Equity
  - C. Corporate Buyout
  - D. Special Situations
  - E. Mezzanine Financing
  - F. Distressed Debt
  - G. International Investments
  - H. Natural Resources (including oil and gas, timber, and agricultural property)
  - I. Hedge Funds
  - J. Fund of Funds
  - K. Secondary Investments
  - L. Co-investments and
  - M. Direct Investments
77. Outline your process for monitoring and reporting on market trends. Include in your response two recent research reports generated by your firm (Identify as Exhibit #4).
78. Describe the key factors by which the firm would recommend diversifying an alternative asset investment program (i.e. industry, geography, investment vehicle, vintage year, etc.).
79. Discuss your firm's opinion regarding risk and expected returns for alternative investments. Describe your organization's philosophy as it applies to a client's total portfolio, alternative investments, risk, and expected returns. Also, please describe your experience and abilities with long-range forecasting for expected performance of private equity.
80. Describe your public pension fund experience and approach in developing alternative investment policies, objectives and criteria for a diversified pension fund.
81. In your view, what are the primary investment issues in alternative investing facing public pension funds? Discuss.

82. Describe how the firm would approach planning and implementing an alternative asset investment program for SFERS. What are the steps the firm would take in the process? What unique client factors would the firm consider? How will your organization provide customized consulting to SFERS while avoiding a more generic approach to its advisory services?
83. Describe the manner in which you will assist SFERS in developing, memorializing, and monitoring the following:
- A. investment policy
  - B. objectives and strategies
  - C. benchmarking
  - D. risk assumptions
  - E. asset mix and permitted ranges for each sub-asset class
  - F. rebalancing policies, and
  - G. qualitative and quantitative portfolio oversight procedure.
84. Please discuss the firm's opinion of the alternative asset secondary markets. Discuss the advantages and disadvantages of the secondary market in an overall alternative asset strategy.
85. Discuss your firm's experience and philosophy regarding direct investments or co-investments in alternative investments; discuss your experience in creating specialized investment vehicles within the alternative investment asset classes.

#### **IV. Monitoring, Performance Measurement and Reporting (20%)**

86. Describe your partnership monitoring philosophy and process. What criteria are evaluated? How frequently are current client investments reviewed? How often does the firm meet with GP's or officers of the company (in the case of direct investments)?
87. How is compliance with terms of the limited partnership agreement ensured?
88. How do you verify information provided by the fund managers?
89. Provide a recent example of due diligence material on a partnership which was held by a client and reviewed during an interim period.
90. Describe how you have been helpful in dissolving partnerships, assisting in a timely and orderly liquidation of assets, and selling off unwanted partnership positions. Do you provide other workout services on distressed partnerships?
91. Please list specific services provided to clients regarding transaction management, fund accounting and fund administration capabilities. Please include:
- A. Assigned staff, their background and experience.
  - B. Accounting and reporting systems.

- C. Internal controls and procedures for validating and tracking capital draws, funding commitments, partnership management fees, and other expenses or cash flows related to partnership investments on behalf of clients.
  - D. Steps taken to assure timely notification of capital draws and distributions from partnerships.
  - E. Describe how the firm manages or assists with clients' stock distributions.
  - F. Amount of involvement needed by SFERS staff to complete, monitor and manage such transactions and functions.
92. Describe your firm's position on attending partnership annual meetings and serving on advisory boards. Are reports of such meetings made available to your clients as part of your basic consulting services?
93. Provide a list of limited partnerships in which the firm or any employee of the firm currently holds an advisory board seat, and whether such relationships are on behalf of clients or your firm's Fund of Funds.
94. Provide examples of portfolio status reports and other reports useful in ongoing monitoring of existing investments.
95. List and describe by asset type the alternative investments benchmarks (both market index and peer group), and peer universes typically employed for your public fund clients.
96. Provide a detailed description of the peer universe to which a client such as SFERS would be compared (include number of public funds, the total number of funds, the range of public and non-public fund assets, the mean and median public fund assets, as well as any other relevant details). Describe how benchmarks are chosen or developed for clients and how performance is compared to similar portfolios.
97. Describe the client reporting process you typically undertake in preparing quarterly and annual reports. Assuming information is available on a timely basis from the general partners, how long would it take you to prepare and deliver quarterly and annual reports to the client?
98. Explain the quarterly reconciliation process. How soon are quarterly reports and IRRs available after the end of each quarter? Do you reconcile your calculated performance with fund managers? Do you reconcile your calculated performance with client custodian banks? Are reported cash flows and NAV data reconciled both with fund managers and client custodian banks?
99. Describe the firm's technological capabilities and relate them to the consulting services and products.
100. Does your organization maintain an alternative investment database? If so, what database do you use and elaborate on how the database will support your relationship with SFERS.

101. Please describe the capabilities and differentiating features of the firm's investment reporting system. Is the database(s) proprietary or purchased? How is data input and verified? At what levels is the information available (i.e. total portfolio, asset class, fund, individual company)?
102. Describe your performance measurement reporting system and methodologies.
103. Describe the services the firm provides over the Internet that are accessible by SFERS online. Please include a description of SFERS account analysis and performance that would be available online.
104. Describe the flexibility available to customize reports. Does the firm provide customized computer-based analytical or reporting tools to its clients?
105. Discuss the alternative equity portfolio analytics your firm is capable of providing. Provide an example (Identify as Exhibit # 5). How are these analytics used in evaluating manager performance?
106. Enclose samples of your typical quarterly and annual performance measurement and monitoring reports for a pension fund client or other institutional owner (Identify as Exhibit #6).
107. Provide examples of other reports you feel are useful in evaluating current investment activities and providing oversight of the investment program.
108. Are your clients able to electronically access underlying portfolio data? Is the data able to be manipulated by the client in order to analyze the portfolio? Are clients able to download data? Are clients able to run ad-hoc queries?
109. Please explain who owns the data (i.e. the consultant or the client). If the relationship with a client ends, what happens to their information?
110. Provide performance data, net of investment management fees, for the investments you were involved in selecting for your clients. Please provide inception-to-date IRRs through December 31, 2012, for the last ten (10) years or since inception of the firm (a minimum of 3 years investment history is required), broken down by vintage year and alternative asset sector. Include a total by vintage year for all asset sectors. Returns are to be measured by vintage year since inception versus the industry top quartile and median returns as defined by Venture Economics. This data should be CFAI compliant, pursuant to the provisions for alternative investments. If not, please disclose differences in methodology. Provide separate tables for each of the following:
  - a) Separate Account (discretionary)
  - b) Separate Account (non-discretionary)
  - c) Single Investor Fund-of-Funds
  - d) Multi Investor Fund-of-Funds

Are your return calculations audited? If so, please provide documentation.

## V. Fee Proposal (20%)

111. Please provide a fee quote, in hard dollars, for the services requested in the Scope of Services. Please indicate whether this fee includes travel and other out-of-pocket expenses. The actual fee paid by SFERS will not exceed the amount proposed in your response. Please break down the cost of consulting and monitoring/reporting services and indicate whether you are interested in providing consulting services, monitoring and reporting services or both. Use the following format:

Period	Proposed Fee (Consulting Services)	Proposed Fee (Monitoring and Reporting Services)	Total Fee
7/1/2013 – 6/30/2014	\$	\$	\$
7/1/2014 – 6/30/2015	\$	\$	\$
7/1/2015 – 6/30/2016	\$	\$	\$
7/1/2016 – 6/30/2017	\$	\$	\$
7/1/2017 – 6/30/2018	\$	\$	\$
<b>Total for 5 years</b>	\$	\$	\$

The proposed fee should be a total firm fixed fee per year.

112. Provide quotes for any additional services (e.g. hourly billing rates, by position classification, for special projects or services).
113. Will the firm confirm that it will not propose increases in the proposed fee structure for the next five years?

## Appendix B Required Vendor Forms

Office of Contract Administration - All required Forms are available at [www.sfgsa.org](http://www.sfgsa.org) under the “How to Qualify to do Business with the City” located at:

<http://sfgsa.org/index.aspx?page=4762>

All vendors must fill out the first three forms before the City can do business with them:

1. IRS Form W-9 - Request for Taxpayer Identification Number;
2. P-25 – Business Tax Declaration; and
3. HRC 12B-101 SF Admin Code Chapters 12B and 12C Declaration

### **1. IRS Form W-9 – Request for Taxpayer Identification Number:**

The City uses this form to determine if vendors must register with the Tax Collector, and if so, whether they have. All vendors must sign this form, even if they are not located in San Francisco. Please download this form, sign it, and mail as indicated in this RFP.

Form P-25 - Business Tax Declaration:

<http://sfgsa.org/Modules/ShowDocument.aspx?documentid=7624>

### **2. P-25 – Business Tax Declaration:**

The City needs each vendor's taxpayer ID number, and if we don't already have it, we need you to submit this form to us. If you've already done business with the City before, don't fill out this form because we already have your taxpayer ID number. We will do our best to make sure the edition we post is current, but we cannot guarantee it.

[IRS Form W-9 - Request for Taxpayer Identification Number \(PDF\):](#)

<http://www.irs.gov/pub/irs-pdf/fw9.pdf>

### **3. HRC 12B-101 SF Admin Code Chapters 12B and 12C Declaration:**

The link below goes to the HRC website. You must complete form HRC-12B-101 and you might have to complete other forms depending on your company's particular situation.

<http://www.sf-hrc.org/Modules/ShowDocument.aspx?documentid=872>



**Appendix C**

**Standard Professional Services Contract**

**SAMPLE**  
**Agreement between**  
**THE SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM**  
**and**

---

THIS Agreement is made this \_\_\_\_ day of \_\_\_\_\_, 2014 in the City and County of San Francisco, State of California, by and between:

\_\_\_\_\_ (hereinafter "Contractor") and the San Francisco Employees' Retirement System (hereinafter the "Retirement System") by and through the Retirement Board.

**W I T N E S S E T H**

WHEREAS, the Retirement System seeks to retain \_\_\_\_\_ services for the San Francisco Employees' Retirement System; and

WHEREAS, Contractor represents and warrants that it is qualified to perform the \_\_\_\_\_ services required by the Retirement System under this Agreement;

Now, THEREFORE, in consideration of the promises and mutual covenants herein contained, the Contractor and the Retirement System do hereby agree as follows:

1. **Term of the Agreement.** The term of this Agreement shall be from \_\_\_\_\_, 2014 to \_\_\_\_\_, 20\_\_ unless extended through a written amendment or terminated under provisions of Section 17 or any other terms of this Agreement.
2. **Engagement.** The Retirement System hereby engages Contractor, and Contractor hereby accepts such engagement, to provide \_\_\_\_\_ services to the Retirement System in accordance with the terms and conditions of this Agreement.
3. **Services.** The Contractor shall provide the Retirement System the \_\_\_\_\_ services described in Statement of Services attached hereto as Exhibit A (the "Services"). Additional services will be provided only upon and in accordance with a written request by the Executive Director or designee acting on behalf of the Retirement System.
4. **Compensation.** For the full performance and the completion of the Services described in Exhibit A, Contractor shall be compensated as set forth in the Fee Schedule attached hereto

as Exhibit B (the “Fee Schedule”). The fee includes the compensation for professional fees as well as travel, printing, delivery, secretarial and clerical support services as may be necessary to perform these services in a professional manner. The Contractor shall furnish an itemized statement of services at the end of each quarter. No charges shall be incurred under this Agreement nor shall any payments become due to Contractor until reports, services, or both, required under this Agreement are received from Contractor and approved by the Retirement System as being in accordance with this Agreement. The Retirement System may withhold payment to Contractor in any instance in which Contractor has failed or refused to satisfy any material obligation provided for under this Agreement.

In no event shall the annual compensation amount of this Agreement exceed \$

---

5. **Contractor’s Responsibility.** The Contractor represents and warrants that it is duly registered as an investment adviser under the Investment Advisers Act of 1940. The Contractor acknowledges that this Agreement places it in a fiduciary relationship with the Retirement System. As a fiduciary, Contractor shall discharge each of its duties and exercise each of its powers (as those duties and powers are defined herein) with the competence, care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the course of any enterprise of like character and with like aims, in conformance with the California Constitution, Article XVI, Section 17 and with the customary standard of care of a professional Contractor providing services to a U.S. employee pension trust.

The Contractor acknowledges that, to comply with the above-described fiduciary duties, it must maintain independence from all interest other than the interests of the Retirement System members and beneficiaries, as those interests are expressed by the Retirement Board. The Contractor further acknowledges that the Retirement System staff acts as the agent for the Retirement Board in its relationship with the Contractor, but is subordinate to the Retirement Board and cannot direct the Contractor to consider interests contrary to those expressed by the Retirement Board.

The Contractor warrants that it will not delegate its fiduciary responsibilities pursuant to this Agreement.

Within the context of providing the services described in Exhibit A, Contractor’s analysis may address tax, legal or other considerations related to various investment strategies or investments. However, the Contractor shall not provide or otherwise be responsible for the provision of tax advice or legal counsel. Contractor shall act in an advisory capacity only.

6. **Key Personnel.** The Retirement System may designate in writing, from time to time, that certain personnel of the Contractor are “key personnel”. Contractor shall immediately notify the Retirement System in writing of any changes in key personnel within their organization.
7. **Budget Authorization.** This Agreement is subject to the budget and fiscal provisions of the City and County of San Francisco Charter. Charges will accrue only after prior written authorization certified by the City Controller, and any amount of the Retirement System’s

obligation hereunder shall not at any time exceed the amount certified for the purpose and period stated in such advance authorization.

This Agreement will terminate without penalty, liability or expense of any kind to the Retirement System at the end of any fiscal year if funds are not appropriated for the next succeeding fiscal year. If funds are appropriated for a portion of the fiscal year, this Agreement will terminate, without penalty, liability or expense of any kind at the end of the term for which funds are appropriated.

The Retirement System has no obligation to make appropriations for this Agreement in lieu of appropriations for new or other agreements. City budget decisions are subject to the discretion of the Mayor and the Board of Supervisors. Contractor's assumption of risk of possible non-appropriation is part of the consideration for this Agreement.

This section controls against any and all other provisions of this Agreement.

8. **Invoices.** Contractor shall submit invoices for the Services in a form acceptable to the Retirement System.
9. **False Claims.** Contractor acknowledges that Contractor is subject to Section 21.35 of the San Francisco Administrative Code, which provides that any Contractor who submits a false claim: (a) is liable for three times the amount of damages the Retirement System sustains; (b) is liable for the costs (including attorney's fees), of a civil suit to recover such damages; and (c) may be liable for a civil penalty of up to \$10,000 per claim. Under that Section, a Contractor is deemed to have submitted a false claim if Contractor: (i) knowingly presents (or causes to be presented) to an officer or employee of the Retirement System a false claim or request for payment or approval; (ii) knowingly makes or uses (or causes to be made or used) a false record or statement to get a false claim paid or approved by the Retirement System or to conceal, avoid, or decrease the obligation to pay or transmit money or property to the Retirement System; (iii) conspires to defraud the Retirement System by getting a false claim allowed or paid by the Retirement System; (iv) knowingly makes, uses or causes to made or used a false record or statement to conceal, avoid or decrease an obligation to pay or transmit money or property to the Retirement System; or (v) is a beneficiary of an inadvertent submission of a false claim to the Retirement System, subsequently discovers the falsity and fails to disclose it to the Retirement System within a reasonable time after discovery.
10. **Taxes.** To the extent applicable, payment of any payroll expense taxes levied on the Services delivered pursuant to this Agreement shall be the obligation of Contractor.
11. **Independent Contractor.** Contractor shall be an independent Contractor and not an employee of the Retirement System. If any governmental authority should, nevertheless, determine that Contractor is an employee, then the Retirement System's payment obligations hereunder shall be reduced so that the aggregate amount of payments directly to the Contractor and to the applicable governmental authority does not exceed the maximum amount specified in Section 4. Contractor shall refund any amounts necessary to effect such reduction.

**12. Insurance.** Without in any way limiting Contractor's liability pursuant to the "Indemnification" section of this Agreement, Contractor must maintain in force, during the full term of the Agreement, insurance in the following amounts and coverage:

- (1) Worker's Compensation, with Employers' Liability Limits not less than \$1,000,000 each accident; and
- (2) Commercial General Liability Insurance with limits not less than \$1,000,000 each occurrence Combined Single Limit for Bodily Injury and Property Damage, including Contractual Liability, Personal Injury, Products and Completed Operations; and
- (3) Professional or Fiduciary Indemnity (Error and Omissions) Insurance in the aggregate minimum of \$10,000,000.

Certificates of insurance evidencing all coverage above, in the form and with Insurers reasonably satisfactory to the Retirement System, will be furnished to the Retirement System before commencing any operations under this Agreement. Upon request, complete copies of these policies will be promptly furnished to the Retirement System.

**13. Indemnification.** Contractor shall indemnify, protect, defend and hold harmless the Retirement System and its officials, employees and agents (each a "Covered Person) from and against all liabilities, obligations, losses, damages, judgments, costs or expenses (including legal fees and costs of investigation) (collectively "Losses") and claims for damages of any nature whatsoever, arising from, in connection with or caused by:

- a) any improper or unethical practice in violation of law, bad faith, negligence, or willful misconduct by the Contractor or its agents, except to the extent such indemnity is void or otherwise unenforceable under applicable law in effect or validly retroactive to the date of this Agreement and except to the extent that any such Losses or claims are the result of the negligence, omissions or willful misconduct of the Retirement System;
- b) any breach of any representation or warranty made by the Contractor in this Agreement;
- c) the breach of any covenant, agreement or obligation of the Contractor contained in this Agreement, including any infringement of intellectual property rights, breach of trust, breach of confidentiality, patent, copyright, trademark, trade secret; or
- d) the injury or death of a person, including employees of the Contractor or loss of or damage to property, resulting directly from the Contractor's negligent acts or omission or willful misconduct in the course of the Contractor's performance of this Agreement, except to the extent such indemnity is void or otherwise unenforceable under applicable law in effect or validly retroactive to the date of this Agreement and except where any such Losses or claims are the result of the negligence, omissions or willful misconduct of the Retirement System.

In addition to the Contractor's obligation to indemnify the Retirement System, Contractor specifically acknowledges and agrees that it has an immediate and independent obligation to defend the Retirement System from any claim which actually or potentially falls within this indemnification provision even if the allegations are or may be groundless, false or fraudulent; which obligation arises at the time such claim is tendered to Contractor by the Retirement System and continues at all times thereafter.

14. **Limitation on Liability of the Retirement System.** The Retirement System's payment obligations hereunder shall be limited to the payments under Section 4 of this Agreement. Notwithstanding any other provision of this Agreement, in no event shall the Retirement System be liable, regardless of whether the claim is based on contract or tort, for any special, consequential, indirect or incidental damages, including but not limited to, lost profits, arising out of or in connection with this Agreement or the services performed in connection with this Agreement.
15. **Termination for Convenience.** The Retirement System shall have the option, in its sole discretion, to terminate this Agreement, at any time during the term hereof, for convenience and without cause. The Retirement System shall exercise this option by giving Contractor written notice of termination. The notice shall specify the date on which termination shall become effective.

Upon termination of this Agreement, Contractor shall commence and perform, with diligence, all actions necessary on the part of Contractor to effect the termination of this Agreement on the date specified by the Retirement System and to minimize the liability of Contractor and the Retirement System to third parties as a result of termination. All such actions shall be subject to the prior approval of the Retirement System. Such actions shall include, without limitation, the orderly liquidation of the portfolio, the cessation of trading, or such other actions as reasonably directed by the Retirement System.

16. **Conflict of Interest.** Through its execution of this Agreement, Contractor acknowledges that it is familiar with the provision of Section 15.103 of the San Francisco Charter, Article III, Chapter 2 of the San Francisco Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et. seq. of the Government Code of the State of California, and certifies that it does not know of any facts which constitutes a violation of said provisions and agrees that it will immediately notify the Retirement System if it becomes aware of any such fact during the term of this Agreement.

Contractor further acknowledges that it is familiar with Section 3.216 of the San Francisco Campaign and Government Code which prohibits an officer or employee of the Retirement System from soliciting or accepting any gift in excess of \$100 in a calendar year from a person who the officer or employee knows or has reason to know is a restricted source. "Restricted source" is defined in this section to mean: a) a person doing business with or seeking to do business with the department of the officer or employee; or b) any person who during the prior 12 months knowingly attempted to influence the officer or employee in any legislative or administrative action.

17. **Confidentiality.** Contractor shall keep strictly confidential any of the Retirement System's proprietary or confidential information to which Contractor has access while performing the

Services and shall not make any disclosure thereof without the prior written consent of the Retirement System. Contractor's obligation of confidentiality will not apply to information that: (a) is or becomes available from public sources through no breach of Contractor's obligations hereunder; (b) is already in Contractor's possession without an obligation of confidentiality; (c) is rightfully disclosed to Contractor from a third party without an obligation of confidentiality; or (d) is required to be disclosed by court or regulatory order provided Contractor gives the Retirement System prompt notice of any such order.

18. **Notices.** Unless otherwise indicated elsewhere in this Agreement, all written communications sent by the parties may be by U.S. mail, e-mail or by fax, and shall be addressed as follows:

To the Retirement System: Jay Huish, Executive Director  
San Francisco City and County Employees' Retirement System  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102  
Fax No. (415)487-7023  
E-mail address: jay.huish@sfgov.org

To the Contractor:

Fax No.

19. **Audit.** Contractor shall maintain accurate books and records relating to this Agreement and the Services, including accounting records and copies of all invoices. Contractor shall make such books and records available to the Retirement System for review and audit for at least three (3) years after termination of this Agreement, in a format and at a location that is readily accessible to the Retirement System.
20. **No Assignment or Subcontracting.** The services are personal in nature and Contractor shall perform the work contemplated with resources available within its own organization. Neither this Agreement nor any duties or obligations hereunder may be assigned, subcontracted or delegated by Contractor without prior written consent of the Retirement System.
21. **Earned Income Credit Forms.** Administrative Code Section 12O requires that employers who contract with the Retirement System provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found.

- a. Contractor shall provide Earned Income Credit Forms to each Eligible Employee at each of the following times: (i) within thirty (30) days following the date on which this Agreement becomes effective (unless Contractor has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by Contractor; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Agreement.
- b. Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by Contractor of the terms of this Agreement. If within thirty (30) days after Contractor receives written notice of such a breach, Contractor fails to cure such breach or, if such breach cannot reasonably be cured within such thirty (30) days, Contractor fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the Retirement System may pursue any rights or remedies available under this Agreement or under applicable law.
- c. Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Section 12O of the San Francisco Administrative Code.

**22. Local Business Enterprise Utilization.** Consultant understands and agrees to comply fully with all the requirements of the Local Business Enterprise Ordinance set forth in Chapter 14B of the San Francisco Administrative Code as it now exists or as it may be amended in the future (collectively the “LBE Ordinance”), provided such amendments do not materially increase the Consultant’s obligations or liabilities, or materially diminish Consultant’s rights, under this Agreement. Such provisions of the LBE Ordinance are incorporated by reference and made part of this Agreement as though fully set forth in this section. Consultant’s willful failure to comply with any applicable provision of the LBE Ordinance is a material breach of Consultant’s obligations under this Agreement and shall entitle the Retirement System, subject to any applicable notice and cure provisions set forth in this Agreement, to exercise any of the remedies provided for under this Agreement, under the LBE Ordinance or otherwise available at law or in equity, which remedies shall be cumulative unless this Agreement expressly provides that any remedy is exclusive. In addition, Consultant shall comply fully with all other applicable local, state and federal laws prohibiting discrimination and requiring equal opportunity in contracting.

Consultant agrees to maintain records necessary for monitoring its compliance with Chapter 14B for a period of three years following termination of this Agreement.

**23. Nondiscrimination; Penalties.** In the performance of this Agreement, Contractor agrees not to discriminate on the basis of the fact or perception of a person’s race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes or in retaliation for opposition to discrimination against such classes, against any employee of, any City employee working with, or applicant for employment with Contractor, in any of Contractor’s operations within the United States, or against any person seeking

accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations operated by Contractor.

a. Contractor does not as of the date of this Agreement and will not during the term of this Agreement, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the Retirement System elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the S.F. Administrative Code.

b. As a condition to this Agreement, Contractor shall execute the “Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits” form (form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

c. The provisions of Chapters 12B and 12C of the S.F. Administrative Code are incorporated in this Section by reference and made a part of this Agreement as though fully set forth herein. Contractor shall comply fully with and be bound by all of the provisions that apply to this Agreement under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, Contractor understands that pursuant to §12B.2(h) of the S.F. Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Agreement may be assessed against Contractor and/or deducted from any payments due Contractor.

24. **MacBride Principles – Northern Ireland.** Pursuant to San Francisco Administrative Code Section 12.F.5, the City and County of San Francisco urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City and County of San Francisco urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing below, the person executing this Agreement on behalf of Contractor acknowledges and agrees that he or she has read and understood this section.
25. **Tropical Hardwood and Virgin Redwood Ban.** Pursuant to Section 814(b) of the San Francisco Environment Code, the City and County of San Francisco urges Contractors not to import, purchase, obtain, or use for any purpose, any tropical hardwood wood product, virgin redwood or virgin redwood wood product.
26. **Drug-Free Workplace.** Contractor acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on Retirement System premises. Contractor



agrees to comply with such Act. Any violation of this Section shall be deemed a material breach of this Agreement.

27. **Resource Conservation.** Contractor shall comply in good faith with Chapter 5 of the San Francisco Environment Code (Resource Conservation), which is hereby made a part of this Agreement as though fully set forth herein.
28. **Sunshine Ordinance.** Contractor understands that under Section 67.24(e) of San Francisco Administrative Code, contracts, contractors' bids, responses to requests for proposals and all other records of communications between the Retirement System and persons or firms seeking contracts, must be open to public inspection immediately after a contract has been awarded. All information provided by Contractor which is covered by that ordinance (as it may be amended) will be made available to the public upon appropriate request.
29. **Limitations on Contributions.** Through execution of this Agreement, Contractor acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services or for the furnishing of any material, supplies or equipment to the City, whenever such transaction would require approval by a City elective officer or the board on which that City elective officer serves, from making any campaign contributions to the officer at any time from the commencement of negotiations of the contract until the later of either: (1) the termination of negotiations for such contract or (2) three months after the date the contract is approved by the City elective officer or the board on which that City elective officer serves.
30. **Prohibition on Political Activity with City Funds.** In accordance with San Francisco Administrative Code Chapter 12.G, Contractor may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Agreement. Contractor agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event Contractor violates the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Agreement, and (ii) prohibit Contractor from bidding on or receiving any new City contract for a period of two (2) years.
31. **Compliance with Americans with Disabilities Act.** Contractor acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be accessible to the disabled public. Contractor shall provide the services specified in this Agreement in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. Contractor agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Agreement and further agrees that any violation of this prohibition on the part of Contractor, its employees, agents or assigns will constitute a material breach of this Agreement.

32. **Requiring Minimum Compensation for Employees.** Contractor agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Agreement as though fully set forth. The text of the MCO is available on the web at [www.ci.sf.ca.us/MCO](http://www.ci.sf.ca.us/MCO).
33. **Requiring Health Benefits for Covered Employees.** Unless exempt, Contractor agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same be amended from time to time. The provisions of Chapter 12Q are incorporated herein by reference and made a part of this Agreement as though fully set forth. The text of the HCAO is available on the web at <http://sfgsa.org/Modules/ShowDocument.aspx?documentid=993>.
34. **No Waiver.** Any failure to enforce any right or to require performance of any provision of this Agreement shall not be considered a waiver of such right or performance.
35. **Documents and Reports.** The Contractor will furnish to the Retirement System and its authorized representatives, on reasonable notice (which in no event need ever be more than five (5) business days) and during ordinary business hours, full access (including useable electronic data format) to the records maintained by Contractor with regard to this Agreement. Any interest of Contractor in reports, memoranda, or other documents prepared by the Contractor in connection with services to be performed under this Agreement shall become the property of and will be transmitted to the Retirement System in a useable format (including electronic data format) upon demand.
36. **Modifications.** This Agreement may not be modified, nor may compliance with any of its terms be waived, except by written instrument executed by each party hereto.
37. **Administrative Remedy.** All disputes, controversies or claims arising under or relating to this Agreement shall be settled by the Executive Director of the Retirement System. The Executive Director's decision shall be deemed an exhaustion of all administrative remedies. However, the Executive Director's decision shall not preclude resorting to judicial remedy.
38. **California Law; Venue.** This Agreement shall be governed by the laws of California. The venue for all litigation or other disputes relative to this Agreement shall be San Francisco, California.
39. **Construction.** Section headings are for reference only and shall not be used to interpret this Agreement. Terms such as "hereunder" or "herein" refer to this Agreement as a whole. Terms such as "include" or "including" shall be deemed followed by the words "without limitation." References to consents, approvals, determinations or other decisions of the Retirement System shall refer to the sole judgment of the Retirement System.

40. **Entire Agreement.** This Agreement contains the entire agreement between the parties, and supersedes all other oral or written provisions. The attached Appendices A and B are a part of this Agreement.
41. **Compliance with Laws.** Contractor shall comply with the City and County of San Francisco Charter, codes, ordinances and regulations and with applicable state and federal laws and regulations (including the Americans with Disabilities Act), as they may be amended from time to time.
42. **Severability.** If any provision hereof is found to be invalid or unenforceable, such finding shall not affect the validity of any other provision hereof; and such provision shall be enforced to the maximum extent possible so as to effect the intent of the parties.
43. **Services Provided by Attorneys.** Any services to be provided by a law firm or attorney must be reviewed and approved in writing in advance by the City Attorney. No invoices for services provided by law firms or attorneys, including without limitation, as subcontractors of Contractor, will be paid unless the provider received advance written approval from the City Attorney.
44. **Graffiti Removal.** Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and County and its residents, and to prevent the further spread of graffiti.

Contractor shall remove all graffiti from any real property owned or leased by Contractor in the City and County of San Francisco within forty eight (48) hours of the earlier of Contractor's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This section is not intended to require the Contractor to breach any lease or other agreement that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code Sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.).

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date first referenced above.

**CITY AND COUNTY OF SAN FRANCISCO  
RETIREMENT SYSTEM (Retirement System)**

By: \_\_\_\_\_ Date: \_\_\_\_\_  
Jay Huish, Executive Director

\_\_\_\_\_  
(Contractor)

By: \_\_\_\_\_ Date: \_\_\_\_\_  
Authorized Party, Title

## Appendix D SFERS Investment Policy Statement

### Investment Policy, Objectives and Guidelines for the San Francisco City and County Employees' Retirement System

#### Mission Statement

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension Trust assets, administering mandated benefit programs, and providing promised benefits.



Approved: November 14, 2012

## Table of Contents:

INTRODUCTION .....	46
INVESTMENT GOALS.....	47
INVESTMENT POLICIES AND PROCEDURES.....	47
GENERAL INVESTMENT OBJECTIVES AND GUIDELINES FOR PUBLIC MARKET SECURITIES .....	57
INVESTMENT MANAGER POLICY.....	58
DUTIES OF RESPONSIBLE PARTIES.....	61

## Appendices:

Tab 1	Strategic Asset Allocation and Public Market Sub–Asset Class Targets and Ranges
Tab 2	Real Estate Investment Objectives, Policies and Procedures
Tab 3	Annual Real Estate Investment Strategy
Tab 4	Alternative Investments Statement of Objectives, Policies and Procedures
Tab 5	Annual Investment Plan for Alternative Investments.
Tab 6	Code of Ethics and Standards of Professional Conduct, CFA Institute, Effective July 1, 2010
Tab 7	Guidelines for Equity and Fixed Income Manager Monitoring and Retention (Approved October 2008)
Tab 8	Emerging Manager Policy (Approved December 2003)
Tab 9	Opportunistic Strategies Policy (Approved September 2006)
Tab 10	Social Investment Policy
Tab 11	Proxy Voting Policy (Approved February 2011)
Tab 12	Securities Lending Program Overview and Securities Lending (2010)

## INTRODUCTION

This document provides a framework for the management of the assets of the San Francisco City and County Employees' Retirement System ("SFERS" or the "System"). The purpose of the Investment Policy Statement ("IPS") is to assist the Retirement Board (the "Board") to effectively supervise and monitor the assets of SFERS (the "Plan"). Specifically, the IPS will address the following issues:

- The goals of the investment program;
- The policies and procedures for the management of the investments;
- Specific asset allocations, rebalancing procedures and investment guidelines;
- Performance objectives; and,
- Responsible parties.

The Board establishes this investment policy in accordance with applicable Local, State, and Federal laws. The Board members exercise authority and control over the management of the Plan, by setting policy that the Investment Staff executes either internally or through the use of external prudent experts with discretionary authority subject to policies established by SFERS. The Board oversees and guides the Plan and its policies subject to the following basic fiduciary principles:

- To act solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing contributions thereto, and defraying reasonable expenses of administering the Plan. The Board's duty to its participants and their beneficiaries shall take precedence over any other duty.
- To act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims.
- To diversify the investments of the Plan so as to effectively trade off the risk of loss and appropriate rates of return. Diversification is applicable to the deployment of the assets as a whole, and does not preclude the use of concentrated investment styles.

The IPS is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur and to establish reasonable parameters to ensure prudence and care in the execution of the investment program.

## INVESTMENT GOALS

SFERS' investment goals are:

- To provide SFERS participants with retirement benefits as required by City and County Charter and applicable laws. This will be accomplished through a carefully planned and executed long-term investment program.
- SFERS' assets will be managed on a total return basis. While SFERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.
- On an annualized net-of-fee basis, over a full market cycle, the total portfolio will be expected to:
  1. Exceed the assumed actuarial rate of return (currently 7.58%<sup>1</sup>) over rolling five-year periods; and/or,
  2. Exceed a weighted index based on SFERS' asset allocation policy and respective asset class component benchmarks over rolling five year periods by an appropriate amount.
- To undertake all transactions for the sole benefit of SFERS members and beneficiaries, and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable administrative expenses associated with the Plan.
- To set asset allocation policy in a manner that encompasses a strategic, long-term perspective of capital markets as well as the nature and structure of SFERS' liabilities. SFERS recognizes that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.
- To make decisions and follow investment policies which comply with "prudent expert" standards.

## INVESTMENT POLICIES AND PROCEDURES

The policies and procedures of SFERS' investment program are designed to maximize the probability

---

<sup>1</sup> The actuarial rate of return is being reduced to 7.50% (from 7.75%) over a three time period. The actuarial rate of return, as approved by the Retirement Board, will be 7.66% in Fiscal Year 2012, 7.58% in Fiscal Year 2013, and 7.50% in Fiscal Year 2014, and thereafter.



that the investment goals will be fulfilled.

### **Asset Allocation Policy**

SFERS adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities and benefit payments and the cost of contributions;
- Historical and expected long-term capital market risk and return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and,
- The current and projected funding status of the Plan.

This policy provides for diversification of assets in an effort to maximize the investment return of the Plan consistent with market conditions and risk tolerance. Asset allocation modeling identifies asset classes the Plan will utilize and the percentage that each asset class represents of the total fund.

Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. SFERS' Investment Staff ("Staff") and external consultants will monitor and assess the actual asset allocation versus policy and will evaluate any variation deemed significant.

Asset allocation policy shall be implemented through the use of investment managers (both internal and external) that will invest SFERS' assets subject to investment guidelines incorporated into the investment management agreements executed with authorized representatives of the System.

SFERS will also use passive management styles in market segments where there is a high degree of market efficiency, where low or no tracking error is desired, or to provide temporary exposure.

The long-term asset allocation targets and ranges for the investments of the Plan's assets are shown in Tab I. These targets and ranges shall be in effect for both broad asset classes and public market sub-asset classes.

### **Investment Manager and Consultant Authority**

The investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to them for management on SFERS' behalf in accordance with this document, applicable Local, State and Federal statutes and regulations, individual investment management agreements, approved investment guidelines, and executed contracts.

Consultants shall have no discretionary authority (unless such authority is delegated contractually by the Board and the Consultant) and shall be co-fiduciaries to the Plan. Consultants shall be responsible for making timely and appropriate recommendations on investment policy issues, for monitoring managers, and for reporting on manager and total fund performance (or asset class composite level performance for specialty consultants) on a quarterly basis. The Board and Staff will consider the comments and recommendations of Consultants in conjunction with other available information in making informed, prudent decisions.

### **Fiduciary Responsibilities**

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to SFERS. Once retained, an investment manager must acknowledge in writing the manager's fiduciary responsibility to SFERS and acknowledge the objectives and policies contained in this Policy. It is expected that, at all times, the manager(s) will conduct themselves as fiduciaries in conformance with the California Constitution, Article XVI, Section 17 and Charter Section 12.100, unless a lesser standard of fiduciary duty is necessary because of generally prevailing industry standards for an investment of that type and nature. Any such generally prevailing industry standard shall be established upon the written advice of the investment consultant responsible for that asset class.

### **Commission Recapture**

SFERS requires that active equity managers use good faith efforts to direct a specific percentage of brokerage transactions for Plan assets under their management through designated commission recapture brokers. SFERS also encourages its fixed-income managers, on a "best effort" basis, to utilize the services of designated commission recapture brokerage firms. It is understood that the commission recapture brokerage firms must provide the best price and execution consistent with market conditions, bearing in mind the best interests of the Plan's beneficiaries and considering all relevant factors.

SFERS will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of SFERS' brokerage transactions.

All rebates or credits from commissions paid to the commission recapture brokers will be realized in cash and rebated back to the Plan.

### **Emerging Business Enterprises**

SFERS Staff, its investment managers, and its consultants shall make a good faith effort to retain and utilize the services and/or products of qualified Emerging Business Enterprises on a sub-contracting and/or joint venture basis when those services/products are provided consistent with the fiduciary responsibilities of the Board.

SFERS will also, to the extent possible, use and encourage the use by its managers of brokerage services offered by emerging brokerage firms, particularly certified San Francisco-based firms.

SFERS has also adopted a policy regarding emerging investment managers, which is included as Tab 8 of this document.

### **Proxy Voting**

SFERS acknowledges that the ownership of equities requires proxies to be voted, and that such voting rights are a tangible asset of the System. The System commits to managing its proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing its other assets, in the sole interest of the System's members and beneficiaries and in accordance with all applicable statutes.

The voting rights of individual stocks will be exercised by an assigned proxy provider under the supervision of the Investment Staff consistent with policy direction from the Retirement Board. The Board shall review the actions of the assigned proxy provider at least annually.

### **Securities Lending**

The Board has authorized the execution of a "Security Lending Program," which will be performed by the Plan custodian or qualified third party securities lending agent(s). The program will be monitored and reviewed by the Investment Staff and will be established and governed by a written agreement. Unless otherwise designated, the income or losses generated by the lending program accrues to the Investment Cash account.

The SFERS Investment Policy and Program Overview for Securities Lending is included as Tab 12 of this document.

### **Custody of Assets**

With the exception of assets invested in commingled funds or assets invested in an investment program approved to use one or more Prime Brokers, the assets of the Plan shall be held in a custody/record-keeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract with the custodian bank.

Staff shall be responsible for reviewing the cost-effectiveness and performance of the custodian on a regular basis (at least every five years), with input from SFERS' consultants as needed.

## **Derivatives**

Derivatives may be employed by SFERS' investment managers (including internal managers) if permitted in the manager's written guidelines. The purpose of derivatives shall be to control portfolio risk, aid in liquidity management, augment return, and/or execute portfolio strategies in a timely and cost-effective manner. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or instruments including, but not limited to futures, forwards, options, options on futures and private swaps. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, executing a passive management style, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration of fixed income portfolios.

Unless permitted to do so in their written guidelines, SFERS' investment managers are not allowed to utilize derivatives for speculative purposes, including creating leverage. SFERS' managers typically shall not borrow funds to purchase derivatives; any exceptions shall be specified in the investment manager's written guidelines. No derivatives positions can be established that create portfolio characteristics outside of portfolio guidelines. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

## **Short Sales and Leverage**

Short sales of securities and leverage may be allowed only if permitted in the investment manager's written guidelines, and shall typically be subject to expressed limits.

## **Rebalancing**

A systematic rebalancing procedure, implemented on a regular basis when asset allocation ranges are breached, or when cash flows occur (e.g., for benefit payments or funding new investments), or for other reasons judged to be in the best interests of the Plan and its beneficiaries, will be used to maintain or to move asset allocations within their appropriate allowable ranges as delineated in Tab I of this Investment Policy Statement.

The Deputy Director for Investments ("DDI"), supported by the Deputy Division Directors for Public Markets and Private Markets, shall be responsible for undertaking rebalancing at the broad asset class level. The Senior Investment Officers or Senior Portfolio Managers ("SIO"s or "SPMs") shall be responsible for making rebalancing recommendations to the appropriate Deputy Division Director for their respective asset class(es) and for implementing those recommendations subject to approvals from the DDI. Rebalancing decisions will take into consideration a combination of various factors including but not limited to: cash needed for benefit payments and expenses, cash needed for investments, asset allocation shifts and weights relative to targets and permissible ranges, an assessment of capital markets conditions, and the performance, organizational and investment attributes of individual managers, including each manager's status under SFERS' Manager Monitoring and Retention Policy (Tab 7).

When broad asset class ranges are breached, the System will rebalance assets such that asset allocation is brought to within the ranges specified in Tab I. For sub-asset classes, the SIO or SPMs will make recommendations regarding allocations to sub-asset classes within their area of responsibility, and shall rebalance according to the same rule when relevant ranges are breached. Sub-asset class targets and ranges are also delineated in Tab I. Subject to approval by the appropriate Deputy Division Director and the DDI, Staff will also have discretion on how to redeploy assets within their asset class in accordance with applicable ranges. The Board recognizes that from time to time ranges may be breached for a period of time due to the absence of an appropriate manager and/or Staff judgment that an existing manager(s) should not be allocated additional assets, or when, in the judgment of Staff, market conditions are not favorable to rebalancing activities.

The DDI shall report to the Board monthly on the System's rebalancing activities, including any exceptions to policy.

### **Social Investment Procedures**

Since it is necessary for adequate recognition to be given to the social consequences of corporate actions and security and portfolio investment decisions to achieve maximum long term investment returns from System assets, and since the individual decisions of Staff, Managers, Consultants, and other System fiduciaries have to be made within a framework that reflects the particular social situation and concerns of the participants and the System, the Retirement Board has adopted a set of Social Investment Procedures to guide the System. Social concerns to be addressed through investment policy shall follow the order of action as outlined in these policies. In no event shall these policies take precedence over the fiduciary responsibility of producing investment returns for the exclusive benefit of the participants. Exceptions to the restrictions on securities holdings outlined here may be made as needed to permit investment in commingled holdings deemed to be in the best interests of SFERS and its beneficiaries.

The investment restrictions based on these procedures are as follows:

### **Tobacco-Related Holdings**

SFERS does not permit its managers (including internal management) to hold securities of US-based companies involved in the production of tobacco products. This restriction applies to both US equity holdings and to US corporate bond holdings.

The Board will periodically review the impact of this restriction on its overall performance.

### **Sudan Related Holdings**

Because the US Congress and the State Department have found the Sudanese Government to be complicit in genocide in the Darfur region, SFERS does not permit its managers (including internal

management) to hold securities of companies doing business in Sudan based on criteria established by SFERS. The Retirement Board directed Investment Staff to inform companies meeting specified criteria of SFERS' intention to divest. Companies will have 90 days to respond. Managers will be informed of companies meeting specified criteria and be given an opportunity to explain why they cannot achieve their mandate if required to divest.

The Social Investment Procedures and lists of restricted securities based on the above may be found in Tab 10 of this document. The Board will periodically review the impact of this restriction on its overall performance.

### **Asset Class Definitions**

SFERS will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

**I. Capital Appreciation** – The Capital Appreciation portfolio will serve as the long term “growth” engine of the portfolio. This portfolio will be the primary source of return as well as risk (volatility) for the portfolio. The Plan’s Capital Appreciation portfolio may be comprised of different market segments and approaches, including:

- **Public Market Equities** – SFERS anticipates that total returns to equities will be higher than total returns to fixed income securities over the long run, and may be subject to greater volatility. SFERS’ equity holdings will be well diversified with respect to region, capitalization ranges and investment styles. The public market equity components in the Plan's asset allocation mix are:
  - **US Equities** – This segment of the portfolio will provide broadly diversified exposure to the US equity market, in both large and small cap market segments, as well as diversified exposure to different style segments (e.g., growth and value). Passive, enhanced passive, and active management strategies may be used in US equity holdings, including internal management by SFERS’ Staff.
  - **International Equities** – This portfolio provides access to equity markets outside the US and consequently plays a significant role in diversifying SFERS' domestic equity portfolio. A core international segment will concentrate on larger companies in developed non-US equity markets while a small capitalization segment will ensure exposure to the smaller companies that are primarily located in developed markets. Both passive and active management may be used in the core international equity portfolio, although active strategies will be emphasized. An emerging markets segment further diversifies the developed market segments by investing in developing markets that have lower correlations with developed economies. As specified in their investment guidelines, active managers may be given discretion to hedge currency exposure in their portfolios. The System may retain external experts to provide currency overlay management.

- **Global Equities** – A global stock portfolio will invest in both US and non-US companies, including emerging markets. Managers will have the discretion to allocate between US and non-US companies depending on their view of opportunities, valuations, and growth prospects.
- **Opportunistic strategies** may also be included in the Public Market Equity segment for the purpose of enhancing return, managing risk, and/or taking advantage of management approaches or hybrid securities that embody equity as well as other characteristics.
- **Alternative Investment Program ("AIP" or the "Program")** – This portfolio is a significant source of investment return that has lower correlation with SFERS' other asset classes. The AIP will include investments in a variety of separate account or commingled/partnership vehicles including venture capital, buyout, turnaround, mezzanine, distressed securities, co-investments and direct investments, and special situations funds. The Program is recognized to be long-term in nature and highly illiquid. Because of their higher risk and illiquidity, alternative investments are expected to provide substantially higher returns over the long term than publicly traded equity securities. Alternative investments can also include more conservative but also relatively illiquid investments, which derive their returns from owning hard and natural resource related assets such as oil- and gas-related properties and timberland.

The primary objective of the AIP is to provide a substantial return premium (500 basis points or more) over the S&P 500 Index over rolling 10-year periods. This hurdle will be used to evaluate all alternative investment opportunities. The Program will also evaluate opportunities based on whether they diversify the Plan by investment type and by manager to reduce manager and asset-specific risks. A third objective of the program is to reduce total portfolio volatility by investing in assets with a lower correlation to public equity markets.

The Senior Investment Officers or Senior Portfolio Managers overseeing the Alternative Investment Program, Staff (including the Deputy Division Director for Private Markets), in conjunction with the Alternative Investment Consultant, will annually update the Statement of Objectives, Policies and Procedures for the asset class and submit to the Retirement Board for approval. Additionally, the Senior Investment Officers or Senior Portfolio Managers overseeing the Alternative Investment Program, in conjunction with the Alternative Investment Consultant, will normally submit an Annual Investment Plan no later than the December meeting of the Retirement Board for Board approval. The Annual Investment Plan will recap the status of the Program and achievement of plan goals, and will identify investment initiatives for the following calendar year. Upon adoption by the Retirement Board, the Statement of Objectives, Policies and Procedures and Annual Investment Plans (Tabs 4 and 5) shall become a part of this Investment Policy Statement.

**II. Capital Preservation** – The Capital Preservation portfolio is intended to provide “downside protection” to the portfolio in periods of financial market duress or disinflation by providing a stable return. Capital Preservation also aids in the diversification of the Plan’s assets. The Capital Preservation portfolio may be comprised of different market segments and approaches, including:

- **Public Market Fixed Income** – The primary role of the Fixed Income portfolio is to provide a stable, predictable income while diversifying SFERS' investment portfolio. SFERS' Fixed Income portfolio will be well diversified, and may include, but not limited to, both investment grade and non-investment grade holdings, US and non-US issues, developed and emerging market debt, mortgage-backed securities and direct mortgage holdings, and dollar and non-dollar denominated holdings. Internally managed fixed income as well as specialty managers may be utilized. Both passive and active management may be used in the Fixed Income portfolio. Currency exposure may be actively managed by the System’s Fixed Income manager(s) as specified in the manager’s guidelines. Opportunistic strategies may also be included in the Fixed Income portfolio for the purpose of enhancing return, managing risk, or taking advantage of management approaches or hybrid securities that embody fixed income as well as other characteristics.
- **Cash** – Cash will be segmented into two categories:
  - **Cash needed for Payment of Benefits and Expenses** – This is cash that will be set aside for the specific purpose of paying benefits and expenses. This cash should generally not be used to meet capital calls or other investment funding requirements. The amount of cash “set aside” for this purpose should not be less than one or more than four months funding requirement, with a target of three months.
  - **Cash Available for Investment** – This is cash which is available for investment following SFERS' Investment Guidelines contained herein. As a matter of principle, SFERS will strive to maintain a “zero cash” policy, i.e., all funds available for investment should be kept invested in accordance with this Investment Policy. Cash Available for Investment should not exceed 1% of Plan assets, with a target of 0%.

**III. Inflation Hedges/Real Assets** –Inflation Hedges/Real Assets are assets that provide investors with a better hedge against loss of purchasing power than traditional asset classes including equities and bonds. Moreover, these strategies maintain lower correlation to traditional asset classes, providing diversification benefits. The Plan’s Inflation Hedges/Real Assets portfolio may be comprised of different market segments and approaches, including:

- **Real Estate** – SFERS' real estate program (the “Program”) invests in real estate commingled funds, co-investments and separate accounts. The Program is diversified by property type and geography, exposed to properties both in the US and internationally, and includes global publicly listed real estate securities. The Program is designed to provide return from both income and capital appreciation. Real estate performance generally has low correlation with traditional



public market asset classes, and therefore provides diversification benefits to the Plan. SFERS recognizes the illiquid, long-term nature of its private real estate portfolio and the role the Program plays in providing diversification to the overall portfolio. The Program is also a hedge against the possibility of severe and persistent inflation. SFERS has determined that active management will lead to returns that are superior for real estate than passive management strategies. Active management, value creation strategies, and the prudent use of third party debt are approved methods for generating the expected excess return.

The Senior Investment Officer or Senior Portfolio Manager overseeing the Real Estate portfolio, Staff (including the Deputy Division Director for Private Markets), and the Real Estate Consultant annually update the Investment Objectives, Policies and Procedures and the Annual Investment Strategy for the asset class and submit these documents to the Retirement Board for approval. The Annual Investment Plan recaps the status of the Program and the achievement of plan goals, and identifies investment strategies, projects and programs for the following fiscal year. Upon adoption by the Retirement Board, the Investment Objectives, Policies and Procedures and the Annual Investment Strategy (Tabs 2 and 3, respectively) shall become a part of this Investment Policy Statement.

## **GENERAL INVESTMENT OBJECTIVES AND GUIDELINES FOR PUBLIC MARKET SECURITIES**

### **Public Market Equity Portfolios**

The public equity portfolios, both internal and external, will be managed on a total return basis following specific investment styles and will be evaluated against specific market benchmarks that represent their investment style. These benchmarks will be specified in the written investment guidelines governing each portfolio. In the case of active managers where such comparisons are applicable, investment results will also be compared to returns of a peer group of managers with similar styles. These benchmarks may also be modified, as appropriate to the manager's investment style, to exclude US tobacco stocks. General equity guidelines for active managers include the following.

- SFERS' holdings by all managers in aggregate in a single stock shall not constitute more than 5% of the outstanding voting stock of any company.
- Unless authorized in guidelines, equity managers' cash holdings shall not exceed 5% of portfolio market value.
- American Depositary Receipts or other depository receipts listed on a major stock exchange or on the NASDAQ are permitted if specified in the managers' guidelines.
- Convertible securities may be held in equity portfolios if authorized in guidelines, and shall be considered equity holdings.
- Securities must be traded on a regulated stock exchange, or listed on the NASDAQ or a comparable foreign market operation.
- Forward or futures contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in or the settlement of any such securities transactions only in portfolios designated specifically to hold these types of securities (i.e., currency overlay).

Any exemption from these general guidelines requires review by Investment Staff and approval from the Board.

### **Fixed Income Portfolios**

The internal and external fixed income portfolios will be managed on a total return basis, following specific investment styles and will be evaluated against specific market indices that represent a specific investment style or market segment. Where applicable, fixed income portfolio investment results will also be compared to returns of a peer group of managers investing with a similar style.

General fixed income guidelines for active managers include the following:

- Permissible securities shall include, but are not limited to, cash equivalents, forward foreign exchange contracts, currency futures, financial futures, government and government agency bonds, Eurobonds, mortgage backed securities (including collateralized mortgage obligations, commercial mortgages, commercial mortgage backed securities, asset-backed bonds, corporate

bonds (including convertible bonds), or other securities specifically authorized by the Retirement Board and incorporated in the Manager's Investment Guidelines. If authorized in written guidelines, derivatives, including forward or futures contracts for foreign currencies, may be used to control risk and augment return, or to effect portfolio management decisions in a timely, cost-effective manner.

Any exemption from these general guidelines requires review by Investment Staff and approval from the Retirement Board.

## **INVESTMENT MANAGER POLICY**

The selection of investment managers will be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each investment manager must function under a formal contract that delineates responsibilities, establishes guidelines, and articulates performance expectations.

Specific policies with respect to managers in non-public market segments are addressed in the Real Estate Investment Objectives, Policies and Procedures (Tab 2) and the Alternative Investments Statement of Objectives, Policies and Procedures (Tab 4).

SFERS will utilize both internally and externally managed portfolios based on specific styles and methodologies. The external managers will be expected to acknowledge in writing that they are Plan fiduciaries and will have discretion and authority to determine investment strategy, security selection and timing within their assigned mandate, and subject to IPS guidelines and any other guidelines specific to their portfolio. Performance of each portfolio will be monitored and evaluated on a regular basis relative to a suitable benchmark and, where appropriate, relative to a peer group of managers with similar investment styles.

A policy framework for Opportunistic Strategies in Global Equity and Public Market Fixed Income is included at Tab 9 of this Investment Policy Statement.

Investment managers, as prudent experts, will be expected to know SFERS' policies (as outlined in this and other appropriate documents) and any specific guidelines for their portfolios, and to comply with those policies and guidelines. It is each manager's responsibility to identify policies and guidelines that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said policies or guidelines through Board action.

The Board and Staff will also review each investment manager's adherence to investment guidelines, and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by SFERS will be responsible for informing the Board and Staff of all such material changes on a timely basis.

SFERS shall follow the Guidelines for Manager Monitoring and Retention that appears at Tab 7 in evaluating its fixed income and equity managers.

Investment managers under contract to SFERS shall have discretion to establish and execute transactions with any securities broker/dealer as the manager determines to be in the best interest of SFERS. The investment managers must obtain the best available prices and most favorable executions with respect to all portfolio transactions, keeping in mind SFERS' desire to transact with commission recapture and emerging brokers, as market conditions permit. Unless otherwise approved in writing, managers are prohibited from engaging in transactions with an affiliated broker/dealer.

### **Selection Criteria for Investment Managers**

Criteria will be established for each manager search undertaken by SFERS, and will be tailored to SFERS' needs in each search.

In general, eligible managers will possess attributes including, but not limited to, the following:

- The firm must be SEC-registered or exempt from registration. Firms claiming exemption from registration requirements must provide appropriate documentation and disclosures indicating reasons for exemption.
- The firm or its senior investment professionals must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by SFERS.
- The firm must display a record of stability in attracting and retaining qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- The firm must have an asset base sufficient to accommodate SFERS' portfolio. In general, firms should have at least \$250 million of discretionary institutional assets under management, and SFERS' portfolio should make up no more than 20% of the firm's total asset base after funding. Exceptions may be made on a case-by-case basis.
- The firm must demonstrate adherence to the investment style sought by SFERS, and adherence to the firm's stated investment discipline.
- The firm's fees should be competitive with industry standards for the product category.
- The firm must comply with the "Duties of the Investment Managers" outlined herein and conform to CFA Institute/Global Investment Performance Standards for performance reporting.

When making a recommendation to retain a manager, any exceptions to these attributes for a recommended manager shall be noted to the Board in writing by Staff or the General Investment Consultant.

### **Criteria for Investment Manager Termination**

SFERS reserves the right to terminate an investment manager at any time for any reason. Guidelines for manager monitoring and retention are included at Tab 7.

Grounds for investment manager termination may include, but are not limited to, the following:

- Failure to comply with the guidelines agreed upon for management of SFERS' portfolio, including holding any restricted issues.
- Failure to achieve performance objectives specified in the manager's guidelines.
- Significant deviation from the manager's stated investment philosophy and/or process.
- Loss of key personnel or changes in ownership structure.
- Evidence of illegal or unethical behavior by the investment management firm or its principals.
- Lack of willingness to cooperate with reasonable requests by SFERS for information, meetings or other material related to its portfolios.
- Loss of confidence by the Board or Staff in the investment manager.
- A change in the Plan's asset allocation program, which necessitates a shift of assets to another sub-asset class or sector.

The presence of any one of these factors will be carefully reviewed by SFERS' Staff and the Board, but will not necessarily result in an automatic termination.

## **DUTIES OF RESPONSIBLE PARTIES**

### **Duties of the SFERS Board**

The Board will adhere to the following procedures in the management of SFERS' assets:

- The Board's primary responsibility is to set the policy framework in which the implementation of SFERS' investment program will take place. Staff will be responsible for the timely implementation and administration of the Board's policy decisions.
- The Board shall formally review SFERS' investment structure, asset allocation and financial performance at least every three years, or more frequently should capital markets or the financial condition of the Plan undergo a material, long-term change necessitating such a review. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or SFERS' financial condition.
- The Board shall review target allocations and allowable ranges to asset class sub-sectors in the public markets portion of the Plan on at least an annual basis.
- The Retirement Board shall review SFERS' investment results at least quarterly,<sup>2</sup> or more often as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The sources of information for these reviews shall include Staff, outside consultants, the custodian, the performance measurement provider, and SFERS' investment managers.
- The Board may retain investment consultants to provide such services as conducting performance and manager reviews, asset allocation, and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions. In selecting external consultants, the Board shall consider the recommendations of Staff.
- The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed.
- The Board shall direct Staff to administer SFERS' investments in a cost-effective manner subject to Board approval. Investment-related costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to SFERS.
- The Board shall be responsible for selecting a qualified custodian with advice from Staff, and from the Consultant(s) if directed by the Staff or the Board.
- The Board shall provide oversight of the effectiveness of Staff's implementation of its policy directives.

---

<sup>2</sup> Performance of Alternative assets and equity real estate is reviewed semi-annually.

## **Duties of the Investment Staff**

SFERS' Investment Staff plays a significant role in the management and oversight of the Plan, and is responsible for the timely implementation and administration of the Board's policy decisions. The Board shall monitor the performance of the Investment Staff in carrying out the duties, which include:

- Managing investment funds according to written investment guidelines as directed by the Board.
- Carrying out rebalancing activity in accordance with the policy stated in this document.
- Monitoring external managers for adherence to SFERS' written policies and guidelines, and in accordance with SFERS' Manager Monitoring and Retention Policy for Equity and Fixed Income. Reviews for portfolios managed by external managers will focus on:
  1. Compliance with the investment guidelines.
  2. Compliance with the terms of the contracts, and the manager's ability to provide the System with timely, accurate and useful information.
  3. Manager's ability to continue to achieve its objectives given its investment process and resources.
  4. Material changes in a manager's organization. This may include, but is not limited to changes in investment philosophy, personnel or ownership, acquisitions or losses of major accounts, etc. The manager will be responsible for advising SFERS' Staff of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
  5. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines as well as the manager's rankings in an appropriate peer group comparison.
  6. Manager's status under the Plan's policies related to Manager Monitoring and Retention.
- Providing due diligence, oversight, and investment recommendations regarding all investment portfolios, including real estate and alternative investments, with assistance from the respective Consultant(s).
- Identifying, measuring and evaluating risk in SFERS' public market holdings.
- Evaluating and managing relationships with the Consultant(s) to the Plan to ensure that the Consultant(s) are providing all the necessary assistance to Staff and the Board as set forth in their service contracts and meeting the needs of the System.
- Making recommendations to the Board regarding retention of Consultant(s).
- Conducting manager searches with assistance from Consultant(s).
- Managing portfolio restructurings resulting from manager terminations with the assistance of Consultants, managers, or other parties, as needed.
- Conducting, directing Consultants and/or managers to conduct, or participating in any special research required to manage the Plan more effectively and in response to any questions or issues raised by the Retirement Board.
- Reviewing the cost-effectiveness and performance of the custodian on a regular basis (at least every five years), with input from SFERS' Consultants as needed or as directed by the Board.
- Monitoring and reviewing the System's securities lending program (if any) on an ongoing basis.
- Monitoring on an ongoing basis the services provided by the commission recapture brokers so

as to ensure that the investment managers are securing the best execution of SFERS' brokerage transactions.

- Supporting the Board in the development and approval of the Real Estate Annual Investment Strategy and Annual Investment Plan for Alternative Investments, implementing and monitoring the Plan, and reporting at least quarterly on investment activity and matters of significance.

### **Duties of the Investment Managers**

The duties of the Investment Managers shall include:

- Provide the Plan with a written agreement to invest within the guidelines established.
- Provide the Plan with proof of liability and fiduciary insurance coverage on an annual basis.
- Be an SEC-Registered Investment Advisor under the 1940 Act or exempt from registration, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style, concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, and purchasing and selling securities.
- Execute all transactions for the benefit of the Plan with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Plan, and, where appropriate, facilitate the recapture of commissions on behalf of the Plan.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.
- Maintain frequent and open communication with the System on all significant matters pertaining to the Investment Plan, including, but not limited to, the following:
  1. Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure;
  2. Significant changes in ownership, organizational structure, financial condition or senior personnel;
  3. Any changes in the Portfolio Manager(s) or other personnel assigned to the Plan;
  4. Each client which terminates its relationship with the Investment Manager, and whose assets represent 5% of the firm's AUM or \$100 million, whichever is less, within 30 days of such termination;
  5. All pertinent issues which the Investment Manager deems to be of significant interest or material importance to its investment process; and
  6. Meet with the Staff or the Board on an as-needed basis.

### **Duties of the Master Custodian**

The Master Custodian shall be responsible for the following actions:



- Provide complete global custody and depository services for the designated accounts.
- Manage, if directed by the Board, a Short Term Investment Fund for investment of any cash not invested by managers, and ensure that all available cash is invested in this or other fixed income vehicles approved by the Board for this purpose. If the cash reserves are managed externally, full cooperation must be provided to the external cash manager.
- Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers and the performance of each portfolio.
- Collect all income and principal realizable and properly report it on the periodic accounting statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report to SFERS' Staff situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Reconcile monthly with SFERS investment managers on price variance and portfolio valuation.
- Provide assistance to the Plan to complete such activities as the annual audit, transaction verification or other unique issues as required by the Board.
- Manage a securities lending program to enhance income if directed to do so by the Board. The custodian may also be called upon to manage the cash collateral associated with the securities lending program. If the securities lending program is managed externally, full cooperation must be provided to the external securities lending agent.

### **Duties of the Investment Consultants**

The selection of Consultants will be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each Consultant shall be a co-fiduciary to the Plan, and must function under a formal contract that delineates responsibilities and appropriate performance expectations.

Consultants shall have no discretionary authority (unless such authority is delegated contractually by the Board and the Consultant). They shall be responsible for making timely and appropriate recommendations on investment policy issues, for monitoring managers, and for reporting on performance results on a quarterly basis. The Board and Staff will consider the comments and recommendations of Consultants in conjunction with other available information in making informed, prudent decisions.

Each Consultant shall abide by The Code of Ethics and The Standards of Professional Conduct established by the CFA Institute (formerly the Association for Investment Management and Research) in carrying out its responsibilities with respect to SFERS. The CFA Institute Code appears at Tab 6.

The General Investment Consultant shall be responsible for the following actions:

- Make recommendations to the Board and Staff regarding investment policy and strategic asset allocation, including sub-asset class structure.

- Assist SFERS Staff in the selection of qualified investment managers, and make recommendations to the Board and Staff on manager selection and manager guidelines.
- Assist Staff in the oversight of existing managers, including monitoring changes in personnel, organization, ownership, the investment process, compliance with guidelines, and other issues likely to affect performance.
- Assist Staff in the selection of a qualified custodian (including a securities lending agent and/or a cash manager) if directed by the Board and Staff.
- Prepare quarterly performance summaries regarding SFERS' manager, composite, and total plan results and make recommendations addressing any performance issues.
- Provide topical research and education on investment subjects that are relevant to SFERS.
- Other tasks as requested by the Board or Staff consistent with the function served by the General Investment Consultant.

The Real Estate Consultant shall be responsible for the following actions:

- Make recommendations to the Board and SFERS Staff regarding investment policy and strategic asset allocation as they pertain to real estate, and regarding public market securities that are affected by real estate-related issues.
- Assist SFERS Staff in the selection of qualified real estate investment managers and make recommendations to the full Board on manager selections. This will also include selection of managers of public market securities requiring real estate expertise.
- Assist SFERS Staff in the oversight of existing managers including monitoring changes in personnel, ownership and the investment process.
- Prepare a semi-annual performance report including performance of SFERS' real estate investment managers and total real estate assets, including a check on guideline compliance and adherence to investment style and discipline.
- Provide topical research and education on real estate investment subjects that are relevant to SFERS.
- Other tasks as requested by the Board or Staff consistent with the function served by the Real Estate Consultant.

The Alternative Asset Investment Consultant shall be responsible for the following:

- Make recommendations to the Board and SFERS Staff regarding investment policy and strategic asset allocation as they pertain to alternative investments.
- Assist SFERS Staff in the selection of qualified alternative asset investment managers and make recommendations to the full Board for selections requiring Board ratification.
- Assist in the oversight of existing managers (including any public market securities managers related to the Alternative Investment portfolio), including monitoring changes in personnel, ownership and the investment process.
- Prepare a semi-annual performance report including performance of SFERS' alternative asset managers and total alternative asset holdings, program policy guidelines, and adherence to

investment style and discipline.

- Provide topical research and education on investment subjects that are relevant to SFERS, especially those that relate to alternative investments.
- Other tasks as requested by the Board or Staff consistent with the function served by the Alternative Asset Consultant.

#### **Duties of the Proxy Consultant**

- Make recommendations to the Retirement Board regarding voting of proxies.
- Assist Staff in implementation of the Retirement Board's policy on voting proxies.
- Prepare an annual report documenting proxy voting activities performed on behalf of SFERS.

#### **Duties of the Performance Measurement Provider**

- The performance measurement provider shall provide regular performance reports including performance attribution of SFERS' asset class composites and total assets, and a check on guideline compliance and adherence to investment style and discipline. Performance calculations shall conform to the CFA Institute's Global Investment Performance Standards.

**Tab I**  
**Strategic Asset Allocation**

		<b>Target Percent</b>	<b>Allowable Range</b>	<b>Composite Benchmark</b>
	<b>Growth/Capital Appreciation</b>	<b>63%</b>	<b>53-73%</b>	
	<i>Global Equity</i>	<i>47.0%</i>	<i>40-54%</i>	<i>MSCI ACWI Investable Market Index (\$, ND)</i>
	<i>Alternative Assets (Private Equity)</i>	<i>16%</i>	<i>10-20%</i>	<i>S&amp;P 500 + 500 bps annualized (long-term)</i>
	<b>Real Assets/Inflation Hedge</b>	<b>12%</b>	<b>9-15%</b>	
	<i>Real Estate (including REITs)</i>	<i>12%</i>	<i>9-15%</i>	<i>8%</i>
	<b>Capital Preservation/Risk Reduction</b>	<b>25%</b>	<b>20-30%</b>	
	<i>Fixed Income</i>	<i>25%</i>	<i>20-30%</i>	<i>100% Barclays Capital US Universal Index</i>
	<i>Cash</i>	<i>0%</i>	<i>0-1%</i>	<i>90-day Treasury Bills</i>
	<b>Total Fund Composite</b>	<b>100%</b>		<b>Benchmarks Weighted by Strategic Allocation Targets</b>

Note: Asset Allocation Targets Approved: October 10, 2012.

**Tab I (continued)**  
**Sub-Asset Class Targets**

**Global Public Market Equity**

	<b>Target Percent of Asset Class</b>	<b>Sub-Asset Class Minimum</b>	<b>Sub-Asset Class Maximum</b>
Passive S&P 500	16%	10%	22%
Enhanced S&P 500	5%	0%	7%
US Large Cap Value	9%	6%	12%
US Large Cap Growth	9%	6%	12%
US Small Cap	6%	4%	8%
US Convertibles	3%	0%	5%
Core International	14%	9%	19%
Growth International	5%	3%	7%
Value International	11%	7%	15%
Small Cap International	6%	4%	8%
Emerging Markets	11%	7%	15%
Global Equity	5%	0%	7%
Opportunistic Strategies	0%	0%	10%
Currency Overlay (% of the International Equity composite to be overlaid)	50% of Intl Equity Holdings	25% of Intl Equity Holdings	55% of Intl Equity Holdings

*Equity sub-asset class targets reviewed and approved October 10, 2012.*

**Fixed Income**

	<b>Target Percent of Asset Class</b>	<b>Sub-Asset Class Minimum</b>	<b>Sub-Asset Class Maximum</b>
Internal Fixed Income	6%	0%	20%
BC Aggregate Index Fund	6%	0%	20%
Core/CorePlus US Bonds	59%	45%	70%
Commercial Mortgages	7%	5%	13%
High Yield Corporates/Bank Loans	8%	6%	10%
High Yield CMBS	5%	3%	10%
Emerging Market Debt	9%	4%	14%
Opportunistic Strategies	0%	0%	10%

*Fixed Income sub-asset class targets reviewed and approved October 10, 2012.*