

City of Reading, Pennsylvania

Request for Information

Reading Police Pension Fund – DROP Accounts

**Pension Fund DROP Account Investment
Consulting and Account Administration Services**

July 17, 2014

City of Reading, Pennsylvania
Reading Police Pension Fund – DROP Accounts
Pension Fund DROP Account Investment Consulting and Account
Administration Services

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City of Reading Police Pension Fund – DROP Accounts

General Investment Consulting and Account Administration Services Request for Information

INTRODUCTION

Overview. The Police Pension Fund Association Board (the “**Board**”) of the City of Reading Police Pension Fund (the “**Plan**”) is requesting information from investment management firms regarding the provision of general investment advice and asset management services to the Board with regard to funds deposited in DROP accounts pursuant to Section 1-616 the Plan document. This search was authorized by the Board and seeks to identify potential full-service investment management firms that might assist the Board with (1) identifying and reconciling the DROP accounts’ generalized investment objectives, portfolio constraints, and risk tolerance; (2) developing appropriate investment options for DROP account holders based on estimates of risk and return characteristics of different asset classes and appropriate risk management approaches; (3) developing appropriate asset allocations to produce diversified investment portfolio offerings for DROP account holders (the “**DROP Participants**”); (4) interacting with the DROP Participants to provide them with sufficient information to make informed decisions regarding investment alternatives available; and (5) interacting with the DROP Participants to initiate investment transactions.

Investments. As of May 31, 2014, the Reading Police Pension Fund DROP Accounts had approximately \$82 million in assets invested in diversified portfolios across various asset classes.

Applicable Legislation. The Plan, including the DROP Accounts, trusts and custodial accounts of the City of Reading are intended to meet the requirements for governmental plans of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986, as amended (the “**Code**”). Because the Plan is maintained by the Board for the City of Reading’s employees, the Plan is a governmental plan under Section 3(32) of The Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”) and Section 414(d) of the Code. The Plan is intended to be maintained and operated as necessary to retain its status as a governmental plan. As a governmental plan, the Plan is exempt from Titles I, III and IV of ERISA, certain provisions of Title II of ERISA, and various provisions of the Code.

SERVICES REQUESTED

The Board is seeking information regarding general investment management services for DROP accounts, DROP account administration services and advice on the various investment alternatives that might be used by the Reading Police Fund DROP Accounts in accordance with the Board’s fiduciary responsibilities and applicable federal and state laws. The information provided should address methods and options for formulating and modifying the Reading Police Pension Fund DROP Account’s administration plan, DROP Account investment policy, performance measurement approaches, attribution analysis, investment alternatives for DROP Participants, interaction with DROP Participants and strategic asset allocation advice.

Specific services requested (the “**Services Requested**”) from the Board’s investment management firm will include:

1. Review the Reading Police Pension Fund DROP Accounts’ default investment policy and recommend potential revisions for the DROP Accounts. This will involve:

- a. Consulting with client for the purpose of identifying and reconciling client's investment objectives, portfolio constraints, and risk tolerance.
 - b. Developing and recommending an appropriate investment strategy based on estimates of time-limited risk and return characteristics of different asset classes and appropriate risk management approaches given the duration of DROP accounts (maximum of 60 months).
 - c. Developing and recommending appropriate investment alternatives to address the DROP Participant's potential investment objectives and produce diversified investment portfolios.
2. Provide self-directed DROP account administration services, including:
 - a. Coordination of the formation, maintenance and distribution of funds to the DROP accounts of individual DROP Participants.
 - b. Establish a diverse selection of investment alternatives from which DROP Participants may invest their funds.
 - c. Provide generalized investment information to DROP participants regarding investment strategies that meet their investment objectives.
 3. Prepare and present to the Board a quarterly performance report package. This will involve consulting with Plan staff to assist in the development of the Board Meeting agendas and attending a minimum of four (quarterly) Board meetings where the management firm will provide:
 - a. A comprehensive economic and market review and analysis.
 - b. A review and analysis of overall DROP Account portfolio performance, including individual asset class and investment manager performance and performance attribution.
 4. Prepare for DROP Participants a monthly performance report statement. The monthly statement will provide a summary of account performance, overall market performance and a statement of current asset allocations. A more detailed quarterly statement will also be provided to DROP Participants. This statement will provide:
 - a. A comprehensive economic and market review and analysis.
 - b. A review and analysis of account performance.
 - c. A listing of possible investment alternatives.
 5. Provide education to Board Members and Plan staff on pertinent issues regarding DROP Account administration.
 6. Provide recommendations on and assist in coordinating other investment related programs of the Plan. Other programs include custodial banking operations and transition management.
 7. Provide ongoing information and alerts to DROP Participants on important issues or impending risks that may affect the investment portfolios.
 8. Other non-routine matters that may arise from time to time.

MINIMUM QUALIFICATIONS

Prospective management firms must meet the minimum qualifications to the Board's satisfaction to be given further consideration. Minimum qualifications are listed in **Attachment 1 – Respondent Certification**.

TERMS AND CONDITIONS FOR SUBMISSIONS

1. All responses must be electronically delivered by **September 8, 2014, 4:00PM (EST)** to Kaylene.Huggins@readingpa.org. Any questions may also be directed to the same e-mail

address.

2. Prospective Offerors acknowledge that the City of Reading and the Plan are subject to the Pennsylvania Right to Know Law and the documents submitted pursuant to this RFI may be subject to a public open records request. Accordingly, Prospective Offerors must identify any material or documents that are confidential and clearly mark those items or documents at the time of submittal. If a request for records is made that includes information that the Prospective Offeror has identified as confidential, the Plan will make reasonable efforts to contact the Prospective Offeror in sufficient time to allow it to take appropriate legal steps to protect the confidential information from disclosure. If as a result of the position taken by the Prospective Offeror regarding the confidentiality of the information the City of Reading or the Plan is assessed any damages or fees, the Prospective Offeror shall indemnify the City of Reading and the Plan for such damages or fees. If no documents or materials are identified and marked by the Prospective Offeror as confidential, the Prospective Offeror will be deemed to have consented to the release of the document or material, and to have waived any cause of action against the City of Reading or the Plan resulting from the release of the documents or materials.
3. The Plan reserves the right without prejudice to reject any or all submissions. There are no expressed or implied obligations on the part of the Plan to reimburse Prospective Offerors for any expenses incurred in preparing responses to this request.
4. This RFI is not a contract, not meant to serve as a contract, and does not constitute a promise to enter into a contract.
5. All documents and other materials submitted in response to this RFI will become the property of the Plan. Responses will be held in confidence and will not be revealed or discussed with other responders.
6. The Prospective Offerors agree to comply with all terms, conditions and requirements described in the RFI. Any failure by any Prospective Offeror to so comply shall be grounds for rejection of their submission, as determined by the Board in its sole discretion.
7. If a contract results from this RFI, neither the successful Prospective Offeror, nor anyone on its behalf (including its agents, affiliates, subcontractors and/or advisers), shall publish, distribute or otherwise disseminate any press release, advertising and/or publicity matter of any type or kind (collectively "advertising material") having any reference to the City of Reading, the Plan, the Reading Police Pension Fund DROP Accounts, this RFI or the resulting contract, unless and until such advertising material first shall have been submitted to and approved in writing by the Board.
8. An individual who is authorized to contractually bind the Prospective Offeror must sign **Attachment 1 - Respondent Certification**. The signature must indicate the title or position the individual holds at the firm.
9. Prospective Offerors must provide answers to the questions posed in the RFI Questionnaire. In their response to each question asked in the Questionnaire, the Prospective Offerors must restate the question followed by their answer. Responses should be thorough and should answer the specific question asked.

EVALUATION PROCESS

1. All responses submitted will be evaluated in accordance with the provisions stated in this Request for Information. Clarifications may be requested from the Prospective Offerors at any phase of the evaluation process for the purpose of clarifying ambiguities in the information provided.
2. The purpose of the evaluation process is two-fold: (1) to assess the responses for compliance with the minimum qualifications, content and format requirements; and (2) to identify Prospective Offerors that have the highest probability of successfully performing the services as described herein. The evaluation process will be conducted in a comprehensive and impartial manner.

PROJECTED SCHEDULE OF EVENTS

Issue RFI	July 17, 2014
RFI Response Deadline	September 8, 2014
Demonstrations/Presentations completed by end of	October 2014

The Board will use its best efforts to adhere to the time schedule specified above. However, the Board reserves the right to amend the time schedule as it deems necessary.

ATTACHMENT 1 - RESPONDENT CERTIFICATION

READING POLICE PENSION FUND – DROP ACCOUNTS

Reading Pension Fund DROP Account Investment Consulting and Account Administration Services Request for Information

Prospective Offeror Firm Name

The Prospective Offeror must substantiate that the firm satisfies the following minimum criteria, to the Board's satisfaction. This certification and the associated documentation must contain sufficient information, as prescribed, to assure the Board of its accuracy.

The Prospective Offeror must:

1. Be registered as an Investment Adviser with the Securities and Exchange Commission under the federal Investment Advisers Act of 1940.
2. Have all corporate and individual authorizations, permits, licenses and certifications required by federal and state laws and regulations to perform the services specified in this RFI at the time Prospective Consultant submits a response to the RFI.
3. As of May 31, 2014, and for at least the three (3) most recent continuous years, have a verifiable operating history with at least one (1) institutional fund client with similar size, complexity and asset mix to the Reading Police Pension Fund DROP Accounts.
4. If hired, agree to acknowledge in writing that it has a fiduciary obligation as an investment adviser to the Reading Police Pension Fund DROP Accounts and DROP Participants while providing the consulting services described in this RFI.

The authorized representative of the Prospective Offeror that signs below certifies:

1. To the best of our knowledge, all information and representations provided are true, complete and accurate.
2. We warrant and represent that our firm did not confer with any other persons or organizations submitting information regarding the search in progress.
3. We have read the complete materials and agree to the terms and requirements upon which this Request for Information is conditioned.
4. The signature affixed hereon and dated certifies compliance with all the requirements of this Request for Information.

Yes: _____ No: _____

Prospective Offeror - Authorized Signature

Printed Name

Title

Date

INVESTMENT MANAGEMENT RFI QUESTIONNAIRE

Organization

1. Provide the address of the office that would service the Reading Police Pension Fund DROP Accounts. If you have other office locations, where are they located (address and telephone number), and what are the primary functions performed within each office?
2. Provide a brief history of your firm and its operations. Include the year formed, ownership structure, and any ownership changes that occurred during the past five years. Are ownership changes planned or anticipated at this time?
3. Provide copies of the following organizational charts as **Exhibit A**:
 - Organizational structure, including parent/subsidiary relationships, if any;
 - Proposer's consulting unit listing major functional areas with the names and titles of key staff in each area along with the total number of staff in each area and their experience. If there are staffing overlaps, please indicate and explain as a footnote.
4. List your firm's lines of business and the approximate contributions of each business to your organization's total revenue. If you are an affiliate or subsidiary of an organization, what percentage of the parent firm's total revenue does your subsidiary or affiliate generate?
5. When was the firm first registered as an investment adviser under the federal Investment Advisers Act of 1940? Please provide Form ADV I and II as **Exhibit B**.
6. Do you consider yourself a fiduciary with respect to recommendations you will provide? If hired, will you acknowledge in writing that you have a fiduciary obligation as an investment advisor to the plan while providing the consulting services we are seeking?
7. Provide details on the financial condition of your firm as **Exhibit C**. The most recent annual report filed with the SEC is acceptable, but any recent material changes should be included.
8. Briefly summarize your philosophy relating to the consultant's/client relationship that your firm will have with the DROP Participants and the Board.
9. Disclose any relationship you have or have had with any Board Member or City of Reading employee. If there are none, so state.
10. Do you or a related company have relationships with fund/money managers that you recommend, consider for recommendation, or otherwise mention to clients? If so, describe those relationships.
11. Do you or a related company receive any payments from money/fund managers that you recommend, consider for recommendation, or otherwise mention to clients? If so, what is the extent of these payments in relation to your other income (revenue)?
12. What percentage of your clients utilizes money managers, investment funds, brokerage services or other service providers from whom you receive fees?

13. Do you have any written policies or procedures to address conflicts of interest, including (but not limited to) the payment of fees or other consideration from other clients, relationships or entities that may compromise your fiduciary duty to your clients? If so, please include a copy as [Exhibit D](#).
14. In addition to the fees paid to your firm by clients who retain your firm as their DROP account administrator, what other sources of revenue does your firm and/or your firm's affiliates receive that relate (directly or indirectly) to the provision of investment consulting services?
15. Is your firm or affiliate a broker/dealer? If yes, does this broker/dealer execute trades for portfolios for which your firm provides consulting services?
16. Do you have any arrangement with broker/dealers under which you or an affiliated/related company will benefit if money managers place trades for their clients with such broker/dealers?
17. Has your firm or any officer or principal of your organization been involved in litigation or any SEC or other regulatory action relating to investment management, brokerage or consulting activities in the last 10 years? If so, provide a brief explanation and indicate the current status of the proceedings.
18. Do you subcontract or outsource any part of your DROP account administration business? If yes, please describe in detail which parts are performed externally and the reason for doing so. Please provide the name(s) of the providers, their office location, how long they have been in business, and the qualifications of the specific people who would be working on our account.
19. Describe the levels of coverage for errors and omissions insurance and any other fiduciary and professional liability insurance the firm carries. List the insurance carriers providing the coverage.
20. Who are your top 5 competitors? What are your firm's consulting specialties and strengths? What are your firm's limitations?
21. What investment consulting services do you provide to clients that are not among the Services Requested in this RFI?
22. What differentiates your firm from your competition? Why should the Plan hire your firm rather than your competitors?
23. Please provide a summary of your firm's experience with DROP accounts, self-directed DROP accounts and governmental plans in general.

Clients

1. Please describe the type, size and number of clients your firm currently provides a full range of investment consulting services for in the table below.

Client Type	# of Consulting Clients	Total Client AUM (\$mil)
Public Pension Plans		
Under \$100 million		
\$100 million to \$1 billion		
Over \$1 billion		
ERISA plans		
Under \$100 million		
\$100 million to \$1 billion		
Over \$1 billion		
Foundations & Endowments		
Under \$100 million		
\$100 million to \$1 billion		
Over \$1 billion		
DROP Accounts		
Other (provide detail)		
Total		

2. A. Indicate the total amount of assets under your pension fund consulting management at the end of each calendar year from 2009 to 2013.

	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09
# of clients					
Assets (\$)					

- B. Indicate the total amount of DROP assets under your consulting management at the end of each calendar year from 2009 to 2013.

	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09
# of clients					
Assets (\$)					

3. Indicate the approximate aggregate market value in US Dollars of your full service clients' investments in various asset classes as of 12/31/13 (do not overlap amounts).

Asset Class	Total Client AUM (\$mil)
Domestic equities	
Domestic fixed income	
Non-U.S. equities	
International bonds (not included above)	
Commercial mortgages	
Cash (not included above)	

Real estate	
Alternative investments (describe)	
Hedge Funds	
Other (describe)	
TOTAL	

4. List the total number and provide at least five (5) references for all public pension fund self-directed DROP Accounts with assets comparable to the Reading Police Pension Fund DROP Account’s assets for whom you provide primary consulting and/or administrative services comparable to the Services Requested in this RFI, and whether they are a full-retainer client. For each reference listed, include **client name, name of contact person, title, address, telephone number and e-mail address**. In addition, for each client referenced, include the inception date of consulting relationship and the total number of dollars under management. If you do not have at least three (3) public pension fund clients as requested above, list at least two (2) of the most comparable pension plan clients that you have, providing the same reference information and the amount of their funds and whether they are a full-retainer client.
5. Provide a list of clients that have terminated your services within the last five (5) years, the dollar amount of assets under management at time of termination and the reasons for termination of each. Indicate the primary and back-up consultants within your firm who were assigned to each client at the time of termination.
6. Describe your plans for managing the future growth of your firm in terms of staff, maximum assets, number of clients, etc.
7. Briefly describe how a new client would transition to your firm. Do you backload transaction and/or investment performance data? What problems have you encountered in transitioning a new client to your firm from their previous consultant? Please provide at least one (1) reference (name, fund name, address, phone and e-mail) of a recent client of yours whom we may contact regarding the transition process.

Personnel

1. Identify the different classifications of employees within your firm and the totals for each classification. What policies are in effect to control the workload as it relates to the number of clients serviced by each relationship manager? Is there a limit on the number of accounts that a relationship manager may handle? What is the average number of accounts per relationship manager?
2. Identify and provide biographies of your firm’s senior leadership and the primary and backup consultants/relationship managers who would be assigned to this engagement as **Exhibit E**. Who are the clients these consultants/relationship managers currently serve? To which office are these consultants/relationship managers assigned?
3. Describe the firm’s compensation and incentive program for hiring and retaining key consultant personnel. How does the firm tie client performance and satisfaction to a consultant’s compensation?

4. Has your firm adopted the CFA Code of Ethics and Standards of Professional Conduct? If so, how is compliance monitored?
5. Explain turnover in key professional personnel (senior management and consultants) over the last five (5) years. Please list staff positions hired, resigned and terminated, including a description of each position and the reason for turnover.

Investment Management

1. Describe your DROP account administration experience and approach in developing and monitoring, and updating investment policies, alternative investment options and objectives for a self-directed and non-self-directed pension fund DROP accounts. Comment on your process for analyzing a client's legal and regulatory restrictions, liquidity needs, time horizon, social responsibility, funding status, portfolio structure and for recommending modifications, including frequency of review.
2. What is your philosophy regarding risk in self-directed DROP accounts?
3. How do you define risk? Briefly describe the risks to which a DROP account in a public pension fund is exposed.
4. How does your firm monitor risk? List the measurements that are used when evaluating risk.
5. Describe your firm's view on risk budgeting. Have you created a risk budget model that is utilized by your clients?
6. Describe any other risk management capabilities that are offered to clients.
7. Discuss the steps your firm would take to analyze the current Reading Police Pension Fund DROP Account administration and investment alternatives.
8. Discuss how you optimize the number and types of managers and how you assess the effect of including new managers. Discuss any statistical analysis that is performed.
9. Describe your firm's philosophy with respect to manager evaluations (formal review, ad hoc, etc.). Briefly describe any on-going due diligence process. What critical issues are examined in the due diligence process? At what point would your firm recommend terminating an investment manager?
10. Do you believe DROP accounts should have a permanent allocation to cash? Why?
11. Describe your firm's view on performance-based fees. What percentage of your firm's clients utilize these types of fees?
12. Discuss your firm's philosophy on transition management. Do you recommend that clients maintain a pool of approved transition managers? How have you assisted with searches for qualified transition managers?

Performance Measurement/Portfolio Analytics & Reporting

1. Describe your firm's experience and capability for calculating performance. Describe differences, if any, in the way the firm would calculate performance among different asset classes. How would the firm ensure accuracy in the performance calculations? How soon after receipt of settlement-date accounting data from the custodian would accurate performance reports be available to present to the DROP Participants?
2. Describe how benchmarks are chosen or developed and how performance is compared to similar portfolios. Can the firm provide custom benchmarks? Style benchmarks? Normal portfolios? Please indicate whether your firm has ever developed benchmarks, and if so, please provide a description of the benchmarks developed.
3. Describe the content and format of your firm's standard monthly/quarterly/semiannual performance reports for the Reading Police Pension Fund DROP Accounts. Provide a sample report for one of your firm's clients that is structured similarly to the DROP Accounts as **Exhibit F**. Provide samples of other kinds of non-standard reports available to DROP Participants as **Exhibit G**.
4. Can these reports be customized to accommodate the Plan's information needs? Are there charges for these additional information requests? Within what time frames can these requested changes be implemented?
5. Describe your firm's view on the most relevant methods of evaluating performance. Include the firm's approach to the measurement risk-adjusted performance.
6. Describe your firm's performance attribution capabilities. Include a breakdown of domestic and international performance attribution capabilities. Does your firm's quarterly reporting package contain attribution analysis at the total fund, asset class and investment manager level?
7. Please list and describe the specific analytical tools and/or software programs used by the firm with regard to:
 - General Market & Economic Research
 - Asset/Liability Modeling and Asset Allocation
 - Risk Management
 - Public Market Investment Manager Oversight, Selection & Monitoring
 - Private Markets/Real Estate Opportunities
 - Performance Measurement/Attribution
 - Other (please specify)
8. Are your performance reports and attribution analysis tools available online?

Selection and Retention of Investment Managers

1. Describe your experience and capabilities in conducting searches for investment managers and other investment services.
2. During calendar years 2011, 2012, and 2013, what type and how many manager searches

- did you conduct for clients with over \$100 million in assets for each year? How many different managers were recommended by you for each year in each asset category?
3. Describe your database that is used for manager searches.
 - How many managers do you maintain on your manager search database?
 - Is your system purchased or proprietary?
 - How do you gather, verify, analyze and update manager information? How frequently? How many years of performance data are on the system?
 - What criteria do you use in evaluating managers for inclusion in your database?
 4. What fees or other consideration do you receive from managers who wish to be maintained on your database?
 5. How do you categorize managers? List manager styles and characteristics that distinguish each style in your classification system, and include concise definitions. How does the firm monitor consistency of style?
 6. Describe the firm's methodology and sources of data for analyzing and evaluating a potential manager's performance. Discuss benchmarks and comparisons with other managers. How is risk factored into this analysis? How do you verify investment manager information such as performance history and their compliance with CFA Institute performance reporting standards?
 7. Describe the firm's experience and capability for assessing an investment manager's total performance. Besides investment returns, what key criteria do you consider in your overall evaluation of an investment manager?
 8. Describe the firm's process for monitoring managers and notifying clients of developments at management firms. Provide one example of a written recommendation to hire and one written recommendation to terminate a manager that you have made within the last 12 months as **Exhibit H**. Include copies of supporting documentation you provided to your client.

Other Information

1. Describe your firm's capabilities in providing educational information to DROP Participants (with regard to investment alternatives) and staff of the Plan (with regard to DROP plan administration). Provide a sample of educational materials developed as **Exhibit I**.
2. How does your firm evaluate the quality of its administration/consulting services? Describe any benchmarks the firm has developed to evaluate its performance and the performance of its primary/lead consultants.
2. Provide a yardstick, benchmark, measurement methodology or other technique that a public fund plan sponsor might use for ongoing quantitative and qualitative evaluation of a full service consultant/administrator.
4. Describe your emergency preparedness and backup office/computer system plans. Have you

ever had to activate any parts the plan? If so, describe the effectiveness of the plan and any post-activity modifications to that plan.

5. Describe how the firm implements and uses the latest technology and how such technology adds value to the firm's clients. What internet technology do you provide to your clients?
6. List the frequency or schedule of specific services that will be provided under your proposed fee.

Fees

1. What are your standard fees for providing self-directed DROP Plan services? Include separate schedules for any item in the Services Requested in this RFI that is not covered under your standard fee arrangement.

Summary of Exhibits

The firms' response should include the following Exhibits:

- Exhibit A: Organizational Charts**
- Exhibit B: Form ADV I and II**
- Exhibit C: Most Recent Annual Financial Report**
- Exhibit D: Written Policies or Procedures to Address Conflicts of Interest**
- Exhibit E: Key Personnel Biographies**
- Exhibit F: Sample Quarterly Performance Report**
- Exhibit G: Samples of Non-Standard Reports**
- Exhibit H: Examples of Recommendations to Hire and Terminate a Manager**
- Exhibit I: Sample of Educational Materials**