

PROPOSAL TO

Port of Houston Authority Pension Plan

Presented by:
Brad Osborne, CIMA
Institutional Consultant

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Senior Financial Advisor

DECEMBER 2009

 Merrill Lynch
Institutional Consulting Group®

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December 8, 2009

Curtis R. Rose, Purchasing Manager
Port of Houston Authority
111 East Loop North
Houston, Texas 77029-4326

Dear Mr. Rose:

On behalf of Merrill Lynch Consulting Services, we would like to thank the Port of Houston Authority for the opportunity to respond to your Request for Proposal ("RFP") seeking Investment Consulting Services of your Pension Plan. Please find the proposal attached with answers to your questions and a discussion of what our service can provide.

Our understanding of the work to be done is stated briefly through Merrill Lynch's Consulting Services. These services are designed to support virtually the entire portfolio management process. With each of the services, the Merrill Lynch Managed Solutions Group can provide assistance tailored to a client's specific needs.

Two of the services offered, a formal *investment policy*, which can also include an *asset allocation strategy*, define a portfolio's investment objectives and a determination of the appropriate risk that can be taken to achieve these goals.

These services are designed to establish a long-term target for a portfolio's average mix over time of such asset classes as stocks, bonds and cash equivalents. Such a target allocation can be a major determinant of both the level of return achieved and the level of risk taken in a portfolio.

Consulting Services also can help you find one or more managers who can carry out your investment policy and asset allocation strategy. This is the *manager identification* service in which investment managers can be screened by using your specific policy criteria, such as return objectives and risk tolerance. The goal is to identify managers whose investment approach, experience, and performance history are appropriate for a portfolio's investment goals and its stated policies and constraints.

Performance measurement is the fourth service provided through Consulting Services. This service should include an evaluation of whether the investment results are fulfilling the portfolio's goals and objectives and whether the manager is following the portfolio's policies and investment constraints. The analysis can also evaluate how performance was impacted by the market environment and by the client's own policies.

The Consulting Services offer a logical way to oversee the management of a pool of assets. While each service involves a host of responsibilities, the Merrill Lynch Managed Solutions Group can assist you at key steps in the process.

We believe we are unsurpassed in our *experience* and *ability* to help clients make the important portfolio planning decisions for which they are responsible.

The Financial Advisors assigned to your account and authorized to make representations for Merrill Lynch are ***Brad Osborne, CIMA, Institutional Consultant***, and ***Monroe Crawford Jr., CFM, Senior Financial Advisor***.

For over 30 years, Merrill Lynch's Managed Solutions Group has provided specialized investment management services tailored to pension plans.

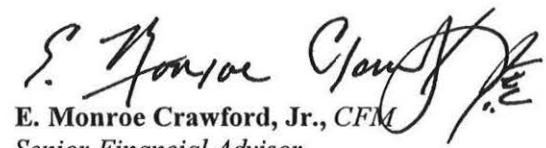
Merrill Lynch Managed Solutions Group ensures that you receive the best level of service available in the industry. We can provide you with the full range of services or just the ones you currently require – all tailored to address the particular financial goals and circumstances of the Pension Plan.

Your Financial Advisors look forward to further discussing all the benefits and advantages of the **Merrill Lynch Consulting Services** and how they can help the Port of Houston Authority meet its long-term financial goals.

Sincerely,



Brad Osborne
CIMA, Institutional Consultant



E. Monroe Crawford, Jr., CFM
Senior Financial Advisor

A. Your firm**1. Provide a copy of your ADV as filed with the SEC.**

ADV Form Part I (over 600 pages) is available at:
www.adviserinfo.sec.gov

In lieu of the ADV Form Part II, we will provide the Port of Houston Authority with the *Consulting Services Disclosure Statement*. This Disclosure Statement describes Merrill Lynch and its Consulting Services and contains all the information required by Form ADV, Part II.

- 2. Describe all past, present, and pending censures by the SEC.**
- 3. Describe all past, present, and pending criminal, civil or administrative litigation against your firm.**

As a leading global investment banking firm, broker-dealer and investment adviser, Merrill Lynch has been and is often subject to civil litigation and regulatory inquiries.

Generally, financial services firms like Merrill Lynch are not required to disclose a pending matter unless and until it becomes a "proceeding." The Securities and Exchange Commission defines "proceeding" to include a formal administrative or civil action initiated by a governmental agency, self-regulatory organization or foreign financial regulatory authority, and certain criminal charges.

As a policy matter, Merrill Lynch does not disclose pending inquiries or investigations because they frequently do not result in any formal administrative or civil action. Moreover, as a public company, Merrill Lynch is prohibited from selectively disclosing nonpublic information, such as the existence of informal proceedings inquiries and investigations. For these reasons, Merrill Lynch's Form ADV and public filings for Merrill Lynch disclose those proceedings and other disciplinary events that the firm must publicly disclose under applicable law.

We would note that Merrill Lynch entered into a settlement with the SEC for events over three years old with respect to the Consulting Services program and its offering through a Florida Financial Advisor team, none of whom are still with the Firm. The January 2009 order included a censure and fine, but noted the voluntary and remedial acts promptly undertaken by the Firm.

Please refer to our Form ADV, Part 1, Item 11 (available on the SEC Website, www.adviserinfo.sec.gov) for a description of this matter and other disciplinary events that Merrill Lynch, as an investment adviser, must disclose.

4. Describe the ownership structure of your firm. If employees have an ownership interest in the firm, please specifically identify who holds that interest.

Merrill Lynch is a wholly owned subsidiary of Bank of America. Bank of America is one of the world's largest financial institutions, serving individual consumers, small and middle market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. Bank of America Corporation stock (NYSE: BAC) is a component of the Dow Jones Industrial Average and is listed on the New York Stock Exchange.

Following the combination with Merrill Lynch, Bank of America has become:

- The largest brokerage in the world, with more than 20,000 advisors and \$2 trillion in client assets
 - A leading provider of global corporate and investment banking services, including commercial lending, global high-yield debt, global equity and global M&A
 - A global leader in wealth management, private banking and retail brokerage
 - A global leader in investment management, with approximately 50 percent ownership in BlackRock, which has \$1.4 trillion in assets under management, in addition to the \$589 billion in assets under management with Bank of America as of June 30, 2008
- 5. If any changes in the firm ownership are being contemplated, please provide details on the contemplated changes.**

Merrill Lynch does not anticipate any changes to its organizational structure with respect to providing the Consulting Services described in this proposal.

6. How long has your firm been in business?

The Firm was officially founded in 1914; on January 6, 1914, Charles E. Merrill opened Charles E. Merrill & Co. Merrill persuaded Edmund C. Lynch to join him and, on May 19, 1914, they opened their office at 7 Wall Street. In 1915, Charles E. Merrill & Co. changed its name to Merrill Lynch & Co.

Bank of America was founded in 1784 and is headquartered in Charlotte, North Carolina. Our heritage is woven into our very name. When our earliest predecessor, The Massachusetts Bank, opened for business on July 5, 1784, the United States Constitution had yet to be adopted. The inauguration of George Washington as the nation's first president would not take place for another five years.

7. Provide the most recent audited financial statement for the firm, including a balance sheet and income statement.

For the most recent audited financials, please visit the Merrill Lynch Web site at www.ml.com and/or the Bank of America Web site at www.BankofAmerica.com.

8. Provide a description of the types and amounts of insurance coverages.

For accounts held in custody at Merrill Lynch, the securities and cash in such accounts are protected by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per customer (as defined by SIPC rules), including up to \$100,000 for cash. For customers who have received the full SIPC limits, further protection is provided by a policy obtained from Lloyd's of London. The Lloyd's policy provides further protection for each customer (including up to \$1.9 million for cash), subject to an aggregate loss limit of \$1 Billion for all customer claims. "Customer" is defined under the same rules for SIPC discussed above. Lloyd's is currently rated A+ (Strong) and A (Excellent) by Standard and Poor's and A.M. Best, respectively. This coverage does not protect against loss of market value of securities. Details about these protections are available on request; information about SIPC can be found at www.sipc.org. For more information about Lloyd's, see their Web site, www.lloyds.com.

In addition to SIPC and excess insurance coverage, Merrill Lynch maintains the following insurance coverage:

- Professional errors & omissions insurance coverage with the Travelers Casualty and Surety Company of America. The deductible is \$500,000 and the limit is \$25 million in the aggregate. This coverage is available for damages arising out of negligent errors, misstatements, misleading statements or other claims arising out of the performance of professional services.
- Fidelity bond (global crime & employee dishonesty insurance) coverage afforded through various Lloyds entities. The deductible is \$30 million and the limits of coverage are \$270 million for each loss and in the aggregate. This coverage is available for losses arising out of employee dishonesty, fraud, theft and forgery.

The beneficiary of the above-specified coverage is Merrill Lynch and its subsidiaries, with the exception of the Fidelity Bond, which is in the name of Bank of America and its subsidiaries. Bank of America and Merrill Lynch will provide clients with certificates of insurance evidencing that the policies have been issued and detailing the line of coverage, carriers, and deductibles.

9. Provide an organization chart for your firm. Show the total number of employees in each section of the organization chart.

Merrill Lynch Managed Solutions Group employs or receives support from approximately 170 employees. The assignments are in the following categories:

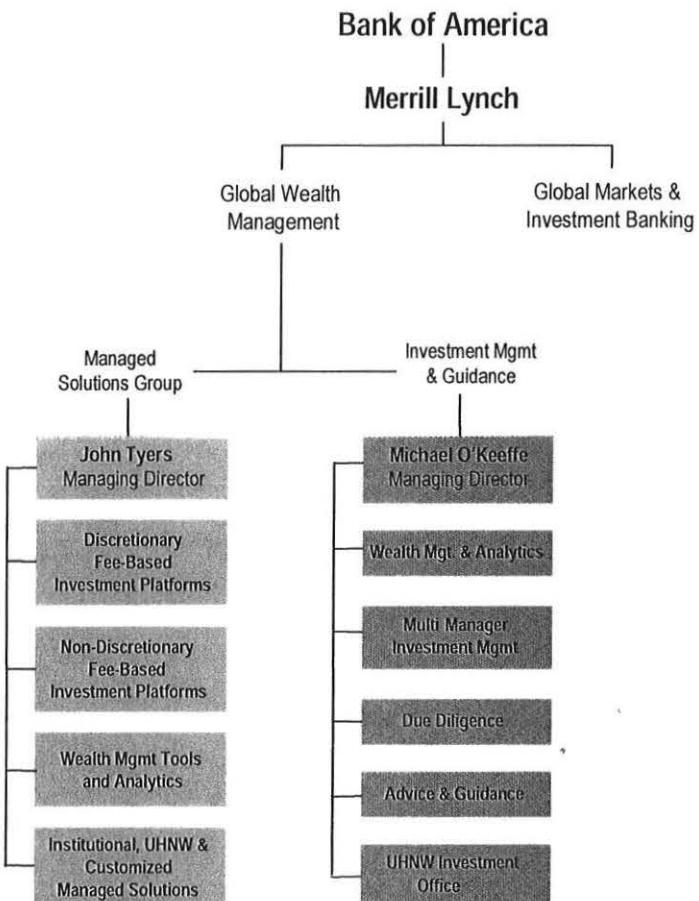
Client Servicing
Finance & Administration
Investment Manager Research & Analysis
Manager Relations and Business Risk
Marketing Support
Product Marketing
Systems
Transaction Desk

There are over 20 professionals, members of the Investment Management and Guidance unit, involved in some aspect of investment consulting research.

[NOTE: The number of employees assigned to particular categories is deemed to be proprietary information.]

The Managed Solutions Group and Investment Management & Guidance are business units of Global Wealth Management, which is part of Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Merrill Lynch Managing Director **John Tyers** and Managing Director **Michael O'Keeffe**'s respective senior management organizational charts follow:



More than 20 professionals are dedicated to investment manager research. These professionals have both significant experience and an educational background that makes our unit one of the premier investment manager research areas. These individuals come from backgrounds such as portfolio management, industry analysis and consulting. Also the majority of these individuals has either a CFA or MBA and in some cases both. All of these professionals are involved in both investment manager research and investment manager searches.

In addition to the professionals involved in consulting research, the Merrill Lynch Managed Solutions Group has at its disposal several databases, (including a proprietary one) of investment managers for separately managed portfolios.

Managed Solutions Group: CFA Charterholders

Many Merrill Lynch professionals are active members of nationally recognized financial services organizations relevant to the investment management consulting profession. In recognition of Merrill Lynch's leadership in the industry, many of our professionals have been appointed to chairperson and

membership positions on such influential subcommittees as ethics, performance standards and publications for some of the following organizations:

- **IMCA** Investment Management Consultants Association
- **ICFA** Institute of Chartered Financial Analysts
- **AIMR** The Association for Investment Management and Research
- **NYSSA** New York Society of Security Analysts

10. Provide a copy of your firm's equal employment policy, HUB, Small Business or similar policies and goals.

Merrill Lynch is committed to Equal Employment Opportunity and to attracting and retaining the most qualified employees regardless of race, national origin, religion, gender, age, or disability.

This statement is an important element of our Merrill Lynch Principle of Respect for the Individual, and by it we mean equal opportunity in all respects - compensation, benefits, promotions, transfers, company-sponsored training, and other conditions of employment, as well as matters that affect the working environment of our employees.

Merrill Lynch is also committed to taking affirmative action in recruiting and advancing qualified women, minorities, Vietnam veterans and individuals with disabilities. In this regard, our company strives to provide an inclusive working environment free of harassment and discrimination in which all employees are valued as important members of the Merrill Lynch team. In addition to Respect for the Individual, the values of fairness and integrity guide the efforts of all our employees, as well as the company's policies and practices.

Fostering a diverse culture at Merrill Lynch is the right thing to do, and it also makes good business sense. As a world-class company, our success depends on the creative ideas and broader perspective that come with a diverse work force. We must continue to cast the broadest possible net to catch the very best talent from the widest possible pool. And, as an employer of choice, we must continue to offer boundless opportunities for people who are willing and able to perform in a competitive and challenging environment.

EEO and Diversity Objectives

Merrill Lynch's primary equal employment opportunity and diversity objectives are to:

1. Provide fair and equitable treatment for all employees regardless of race, religion, color, national origin, age, sex or disability in compliance with federal, state and local laws.
2. Achieve specific goals for representation of females and minorities in managerial, supervisory, professional and revenue-producing jobs, based on analyses of relevant labor markets.
3. Establish an inclusive working environment free of harassment and discrimination in which all employees feel like valued members of the Merrill Lynch team and in which employees are encouraged and assisted in balancing their personal and work lives. Corporate work and family policies and practices will be progressive and competitive, meeting a wide range of needs of the Merrill Lynch workforce.

4. Increase the dollar volume of business done with minority and women's business enterprises that fit the Company's purchasing requirements.
 5. Strengthen the Company's image and reputation as a progressive employer. Ensure that key audiences: employees, students, clients, competitors, shareholders, and the general public, view Merrill Lynch as a leading force in managing diversity and as one of the best places to work.
 6. Integrate diversity into Merrill Lynch's core values. Ensure that all employees understand the commitment to, and the rationale for, a diverse workforce.
 7. Make managers at all levels accountable for development of a diverse organization through hiring, retention, development, and advancement.
 8. Successfully recruit minorities and women.
 9. Establish a true meritocracy where development and growth of women and minorities reflect fairness and proportionate representation.
- 11. Describe the types of compensation available to your professional staff, especially any type(s) that would apply to the team covering this account.**

The Merrill Lynch Managed Solutions Group provides its staff with exposure to a wealth of knowledge, insight and experience from the diverse markets and industries in which Merrill Lynch clients do business.

Employees work hard at Merrill Lynch. In return, the firm offers them responsibilities commensurate with their unique backgrounds and abilities; and a competitive compensation and benefits program. The analysts and support professionals are compensated on a salary and bonus basis.

Merrill Lynch, its affiliates, and employees benefit from the fees and charges paid by clients for the Consulting Services. Such clients may also use other products or services available from or through Merrill Lynch and, in such case, pay additional compensation. Financial Advisors offering these services and providing on-going assistance to such clients will, in turn, receive compensation from Merrill Lynch.

12. What is the total number of clients being served by your organization?

Client Asset Size:	No. of Accts
Large (over \$100 million)	83
Medium (\$10-\$100 million)	172
Small (less than \$10 million)	227
	482

<u>Client Categories</u>	<u>No. of Accts</u>	<u>Assets</u>
Corporate (ERISA) Plans	35	\$4,251,455,358
Public (Government) Funds	50	\$3,934,486,455
Union (Taft-Hartley) Funds	49	\$11,204,506,220
Foundations/Endowments	90	\$5,266,628,345
Hospitals/Health Care Org.	34	\$1,564,040,921
Insurance Co.	9	\$1,778,934,566
Individual/Family Trusts	101	\$15,405,065,091
Religious	29	\$1,667,489,601
Associations	23	\$910,811,302
<u>Other</u>	<u>62</u>	<u>\$677,662,088</u>
	482	\$46,606,129,390

Source: Informa System as of 3/31/2009

Assets in our managed asset programs which are solutions combining consulting, custody and investment management have total assets of \$96.5 Billion as of 9/30/2008.

13. Have you placed a limit on the number of clients your organization will serve? If yes, provide that limit.
14. What is the largest number of clients handled by one team?

The average number of clients assigned to each consultant is ten.

The policy of Merrill Lynch is to provide the highest level of service to all of our clients at all times. To maintain service levels Merrill Lynch, from time to time, evaluates each Consultant and their work load in an effort to provide reviews, along with surveys, to individual clients. In the event that a Consultant is reaching a point in which the firm feels he or she has an ample amount of accounts, they will work with the Consultant by adding staff to maintain levels of service.

15. How many government account does your firm service? How many accounts with Texas governmental agencies does your firm service? Are there differences between governmental pension plans and private sector pension plans which you believe are relevant to asset allocation or investment management?

As shown by the table above (in the answer to Question #14) we are currently providing our institutional Consulting services to 50 government accounts with assets over \$3.9 billion.

Partial Client List- Texas Governmental Funds and Public Funds

Alamo Community College, Alamo, Texas*

City of Amarillo, Texas*

Alabama Peace Officers Annuity and Benefit Fund, Montgomery AL#

Amarillo Economic Development Corporation*

City of Austin, Texas*

School District of Beaumont, Texas@

Bossier City Police Pension and Release Fund#

Brownsville Navigational District, Brownsville, Texas@
Calhoun Port Authority (Formosa Plastics Corp)*
Canadian River Municipal Water Authority*
Coastal Water Authority, Houston Texas*
City of Corpus Christi Texas@
Dallas Area Rapid Transit Authority, Dallas Texas*
Dallas-Fort Worth International Airport, Dallas, Texas*
Desoto Parish Police Jury, Mansfield, LA#
City of El Paso, Texas*
Port Freeport, Freeport Texas@
Galveston County, Texas*
City of Galveston Texas@
Port of Galveston @
Harris County Texas*
Harris County Hospital, Houston Texas*
Harris County Metro Transit Authority, Houston Texas*
City of Houston, Texas*
Port of Houston Authority *
Houston Community College, Houston Texas@
University of Houston, Houston Texas @
Jefferson County General Retirement System, Birmingham AL #
School District of Pasadena Texas@
City of Pasadena Texas@
Pennsylvania State Association of Boroughs#
Texas Municipal Gas Corporation*
City of Shreveport Employees Retirement System#
University of Texas System Board of Regents*
Wayne County Employees Retirement System, Detroit MI#

*Merrill Lynch Public Finance was Senior Manager in the past 5 years

#Merrill Lynch Institutional Consulting Services Client

@Bank of America Merrill Lynch HIG Client

We believe there are many important issues the public pension funds need to consider when developing an investment policy. For example:

- (1) It is not unusual for public funds to be comprised of assets from multiple municipalities with different financial resources and demographics. As a result, the trustees need to strike a balance between competing needs and circumstances of participating municipalities. The investment policy could be used to document the rationale for decisions made with regard to the asset allocation and facts reviewed by the trustees to arrive at the decision to avoid rancor.
- (2) The Boards of Trustees of Public funds tend to have a fair amount of turnover as members of the Board may be political appointees. A strong investment policy helps avert the temptation "to do something" by newly appointed trustees.
- (3) Public funds are often subject to economically targeted constraints, social constraints, and legislative constraints. The investment policy should document these constraints in clearly written language so that

investment managers, trustees, and other parties are aware of these constraints. Violations of the constraints will not only be costly to the investment managers but politically embarrassing to the Trustees.

(4) The Trustees of the Board are typically not investment professionals. The process of developing an investment policy helps educate members of the Board as to realistic return expectations delivered by the capital markets historically.

16. Describe any relationships with the Port Authority's employees, Commissioners, trustees or others that may be construed as a conflict of interest as defined by ERISA (as if ERISA were applicable to the Plan), Chapter 802 or the Texas Government Code, or the provisions of Texas law concerning public officials pursuant to Chapter 171 of the Texas Local Government Code.

To the best of our belief and knowledge, Merrill Lynch, Pierce, Fenner & Smith does not have any conflicts of interest with respect to the individuals cited as part of the Port of Houston Authority.

17. Provide information explaining your procedures for maintaining independence in the advice that you, as pension investment consultant, provide, in light of the fact that many pension consulting firms provide services both to pension plans who are their advisory clients and to money managers, which duality may create a conflict of interest potentially clouding objectivity.

Because Merrill Lynch offers a wide range of services and has business relationships with many different organizations, including investment managers, we recognize that conflicts of interest may exist. Merrill Lynch has adopted policies and procedures to control conflicts of interest and help ensure that client interests come first, as follows:

- To protect against conflicts of interest with BlackRock, and Nuveen and its subsidiaries (which currently include Tradewinds Global Investors, LLC, NWQ Investment Management, Rittenhouse Asset Management, Santa Barbara Asset Management, Symphony Asset Management and HydePark Investment Strategies), the Managed Solutions Group does not include them in any manager searches, unless the client specifically requests that we do so.
- Merrill Lynch does not charge investment managers for inclusion in our manager search database and the Consulting Services are not offered to investment managers. Manager research is performed by the Investment Management & Guidance Group, whose analysts are compensated on overall job performance, not the frequency of manager selection. We believe that this compensation practice is an important safeguard and another example of our intention to make sure that client interests come first.
- Merrill Lynch has a set of firm-wide "Principles" and a "Client Commitment" which all employees are expected to meet. Additionally, our Compliance Unit has established procedures to implement management's policies regarding conduct, ethics and business practices and to comply with regulatory requirements. For example, Merrill Lynch requires employees to make a personal commitment to the highest ethical standards and to the exercise of proper judgment in all aspects of their business dealings. To help employees understand and abide by this commitment, a booklet entitled, "Guidelines for

"Business Conduct" is provided to all employees. All new employees are provided with a copy as well, and are required to sign a statement attesting that they have read and understood its content.

- Merrill Lynch maintains detailed and comprehensive compensation and reimbursement policies for all its employees. Merrill Lynch employees may not accept cash or non-cash compensation from third parties unless in compliance with the above. The policy specifically covers the payment of expenses, appropriate costs that may be reimbursed, recordkeeping requirements, and other matters. The policy also includes guidelines regarding the receipt of gifts and entertainment by Merrill Lynch employees from third-parties, e.g., gifts must be limited to \$100 per employee per year.
- Merrill Lynch has adopted an Investment Adviser Code of Ethics which sets forth the rules of proper conduct for its employees who offer, sell, service and/or supervise the Firm's various investment advisory products and services. This Code of Ethics sets forth the policies and procedures required under the Advisers Act and is intended to guide Merrill Lynch employees in meeting the high standards Merrill Lynch follows in conducting its business. Among other things, it provides that employees may not engage in fraudulent or manipulative practices, or take advantage of their position for the purpose of furthering any private interest or as a means of making any personal gain. The Code is based on the fundamental principle that Merrill Lynch and its employees must put investment advisory client interests first. Employees are also required to certify that they have read and understand the Code of Ethics, and that they will adhere to the Code at all times in the course of their employment at Merrill Lynch.

At Merrill Lynch, we are proud of these policies, and we continue to review them to ensure that they meet our standards of excellence, the needs of our clients and the needs of our business. Merrill Lynch also urges employees to come forward, without fear of reprisal, if they believe that any of the Firm's ethical principles and rules of conduct have been violated. An "Ethics Hotline" in the Office of the General Counsel has been established for this purpose.

Conflicts of interest are present in many businesses including the investment consulting business. We believe that no firm can totally eliminate conflicts that exist explicitly or implicitly. But Merrill Lynch and its Managed Solutions Group have taken proactive steps to identify, disclose and control conflicts. Merrill Lynch evaluates its business activities and the actual and possible conflicts that may emerge from its activities on an ongoing basis. To the extent that existing or new business activities raise an actual conflict of interest, or the appearance of a conflict, we endeavor to provide full and clear disclosure or take action to avoid them.

18. Describe your business relationships (and those of your affiliates), including but not limited to receipt of fees, from money managers that you would recommend to Port Authority.

Merrill Lynch Consulting Services follows practices designed to control conflicts of interest and ensure that clients' interests come first. For example, Consulting Services: (1) does not introduce investment managers affiliated with Merrill Lynch to clients unless so requested, (2) does not charge investment managers for inclusion in our manager search database, (3) does not accept referral fee payments from managers as a result of client selection, and (4) does not offer consulting services, including performance measurement, to investment management firms.

Each manager search performed by Consulting Services is unique and customized based upon each client's specific circumstances, such as their investment objectives, risk tolerance, constraints, and servicing requirements. The Consulting Services group offers a choice of investment manager candidates to clients based upon their specific needs and goals. We have at our disposal databases of investment managers for separately managed portfolios that include hundreds of managers. The Consulting Services group is not paid by any investment manager for inclusion in client recommendations.

It should be noted that investment managers may pay for, or reimburse Merrill Lynch to cover, various costs arising from client and prospective client meetings, sales and marketing materials, and educational, training and sales meetings held with Financial Advisors and other Merrill Lynch personnel relating to Consulting Services and asset management. These managers may also make charitable donations or cover the costs of reasonable entertainment in connection with Merrill Lynch sponsored or client related events. Merrill Lynch's reimbursement and cost-sharing policies (1) are fully disclosed; (2) meet regulatory requirements and industry practices; and (3) enhance the knowledge and expertise of our clients and Financial Advisors.

19. Describe the extent to which you will disclose conflicts and potential conflicts of interest to Port Authority. Of particular interest are your business relationships with money management firms that you would consider recommending to Port Authority.

To the extent that existing or new business activities raise an actual conflict of interest, or the appearance of a conflict, we endeavor to provide full and clear disclosure or take action to avoid them.

20. Describe the extent to which you will, and the method you will use to, disclose conflicts and potential conflicts of interest which you know or discover between yourself (and your affiliates) and the pension plan trustees, including any economic benefits provided directly or indirectly from plan service providers.

To the best of our belief and knowledge, Merrill Lynch, Pierce, Fenner & Smith does not have any conflicts of interest with respect to the individuals cited as part of the Port of Houston Authority.

21. Explain in detail your understanding of the fiduciary relationship, if you are awarded the contract, between yourself as pension consultant and the Port Authority as your client.

As an investment adviser registered with the SEC, pursuant to the Investment Advisers Act of 1940, we owe a fiduciary duty to act in the best interest of our clients and to place the interests of our clients before our own. Merrill Lynch's duty in this regard requires it to act with high standards of conduct, care, and loyalty to our clients and to fully disclose potential conflicts of interest. Merrill Lynch is willing to specifically acknowledge this duty under the Investment Advisers Act of 1940 in our written agreement with a client.

22. Describe the policies and procedures maintained by your company that concern how you prevent and manage conflicts of interest in your pension consulting activities.

These are the policies and procedures discussed in the answer to Question #17, above.

23. Describe the policies and procedures maintained by your company that govern disclosure of conflicts to existing and prospective advisory clients.

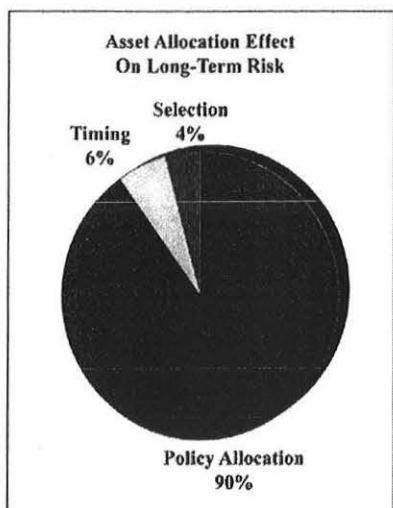
As previously mentioned, conflicts of interest are present in many businesses including the investment consulting business. We believe that no firm can totally eliminate conflicts that exist explicitly or implicitly. But Merrill Lynch and its Managed Solutions Group have taken proactive steps to identify, disclose and control conflicts. Merrill Lynch evaluates its business activities and the actual and possible conflicts that may emerge from its activities on an ongoing basis. To the extent that existing or new business activities raise an actual conflict of interest, or the appearance of a conflict, we endeavor to provide full and clear disclosure or take action to avoid them.

24. Describe the policies and procedures maintained by your company to prevent conflicts of interest or disclose material conflicts of interest with respect to the use of brokerage commissions, gifts, gratuities, entertainment, contributions, donations and the like provided to clients or received from money managers.

These are the policies and procedures discussed in the answer to Question #17, above.

B. Your Services

1. Do you perform asset allocation studies? If yes, describe your method for developing an asset allocation, and provide references, including contact information, for at least two organizations for which you have provided such service. The references should be from organizations that have total assets of a magnitude similar to the Port Authority pension fund.



Source: Financial Analysts Journal,

Determining an appropriate asset allocation from the available investment alternatives can be one of the most important portfolio management decisions you can make. Over time, the selected asset mix can be a major determinant of a portfolio's level of return and of the level of risk taken. This means that a strategic allocation target should be carefully determined, so that it will reflect and support your portfolio's return objectives, liquidity requirements, financial status, and most importantly, your tolerance for risk.

The Merrill Lynch Managed Solutions Group employs state-of-the-art allocation modeling capabilities to assist in identifying an appropriate strategic asset allocation. Our computer model uses Merrill Lynch's forward looking capital market assumptions for risk/return and correlation of each asset class to model proposed portfolios.

Summarized on the following pages are the major stages involved in an asset allocation study:

STAGES OF AN ASSET ALLOCATION STUDY

STAGE 1: SET GOALS & OBJECTIVES

STAGE 2: DEVELOP SCENARIOS

STAGE 3: SELECT ASSET MIXES

STAGE 4: FORECAST RESULTS

STAGE 5: EVALUATE RESULTS

Stage 1: Set Goals and Objectives

Brad and Monroe will work closely with you to gain an understanding of the critical factors affecting your investment goals. Ongoing consultations will review important areas such as expected cash flow requirements and time horizon for achieving your investment goals. These discussions will help identify

potential asset classes to be analyzed. Most importantly, these discussions will define the scope of the study and provide guidance on the types of investment scenarios that are relevant to your portfolio.

Stage 2: Develop Scenarios

A variety of customized “what if” scenarios are developed with your input in order to analyze your risk tolerance. By examining such hypothetical and historical scenarios, you can review potential outcomes that could significantly influence your asset allocation decision. Typical scenarios in many studies include high inflation periods, declining inflation periods, or other scenarios.

Stage 3: Select a Set of Asset Mixes for Analysis

The next phase of the modeling process identifies alternative asset mixes that may be of interest compared to your current asset allocation. Together with Brad and Monroe, you would select mixes on the basis of the scenario inputs developed in the previous stage.

Stage 4: Forecast Results

For each scenario and for each asset mix year-by-year and cumulative projections are illustrated and described. These projections would show projected market values and projected rates of return.

These projections could also show projections on an after-inflation basis. Within each forecast, the projections show results assuming returns that correspond to the “average” rate of return forecast for the scenario, however, to show the sensitivity to changes, “optimistic” and “pessimistic” forecasts are also calculated.

Stage 5: Evaluate Results

The analysis and interpretation of the results of the study is where Merrill Lynch can best help you determine the most suitable asset mix. Through a highly interactive process, the Port Authority, along with Brad and Monroe, will work together on an analysis of each of the alternative asset mixes. The end result is detailed information on alternative asset mixes designed to meet the Port Authority's long term goals and objectives.

References

Due to the Firm's client confidentiality policies, which would also protect the Port of Houston Authority Pension Plan as a Merrill Lynch client, we cannot provide references at this stage of the RFP process other than the names provided . However, we would seek to obtain client approval to provide references upon further request of the Port Authority.

2. Do you provide recommendations for investment managers? If yes, provide the method by which you determine which managers are to be recommended.

The *Investment Management & Guidance unit* first establishes specific screening criteria for reviewing potential managers from our database based upon your investment policy. This information comes from the Manager Identification Service questionnaire and a thorough review of your investment goals, objectives, and risk tolerance conducted by Brad and Monroe.

This information is then reviewed by the Investment Manager Search Committee which identifies investment management firms that we believe are suitable for the search based on your specific goals, objectives and risk tolerance.

To identify candidates, we focus on a variety of quantitative criteria, which can include the amount of assets under management, length of time in business, number of investment professionals and risk adjusted performance (performance relative to risk taken), among others.

This process results in a "short list" of candidates who are then contacted directly by a Managed Solutions Group team member to update information regarding their firm. These potential candidates are further evaluated according to other more qualitative criteria. These include experience and qualifications of investment professionals and staff, turnover within the firm of both staff and clients, and experience with similar clients who have similar investment objectives.

As a result of this research effort, we will present to you a detailed report, which will include organizational descriptions, investment processes and statistical summaries for each of the potential investment manager candidates for you to consider.

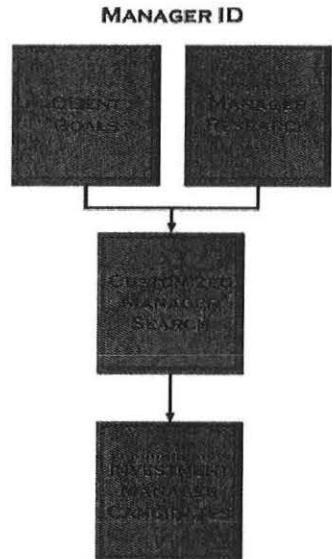
Brad and Monroe will assist you in reviewing this information and in identifying the finalists you choose to interview. Brad and Monroe will also be available to assist you in the interviewing process. Of course, the final selection of the investment manager(s) will be your decision.

3. Describe your due diligence process when conducting an investment manager search.

We believe it is important to note that what sets the *Merrill Lynch Investment Management and Guidance unit* apart from the competition is our extensive fundamental approach to investment manager research. We employ a rigorous and disciplined selection and monitoring process. Our analysts are a dedicated, seasoned team of highly qualified professionals, specialized by asset class, size and style, region and credit quality. Many have obtained their CFA designation.

Our comprehensive quantitative analysis and research is augmented by our most important database - the information we collect during our visits with investment managers.

Our practice has always been to find ways to maximize the value of our manager identification service to our consulting clients. We do this by spending a great deal of time meeting with investment managers on-site, as well as in our office. During these meetings, we focus upon those issues that cannot be captured



in a database. This includes meeting and getting to know the investment professionals, reviewing the investment process, talking with traders and examining the ability of the managers' portfolio management systems to track client constraints. Our periodic monitoring and re-evaluation process helps to ensure that managers continue to meet our retention criteria.

More than half of the visits with investment managers conducted by the Merrill Lynch analysts were conducted at the investment managers' offices. The data collected by our over 20 analysts makes the research undertaken by the analysts of the Managed Solutions Group one of the most intense research efforts of investment managers in the industry. The depth and breadth of our resources accesses an unusually wide universe of investment managers.

Our staff travels extensively nationally and internationally in an effort to find the very best possible managers to present to our clients. All of the costs associated with our in-depth research are borne by us. Managers never pay a fee to be included in our manager identification service.

As a result, our clients know that when the Merrill Lynch Managed Solutions Group conducts a manager search, the managers introduced to our clients have been researched and analyzed. The specific managers introduced to our clients have been reviewed by the analysts and have been determined to be appropriate for that specific client for that specific manager search.

Merrill Lynch's dedicated due diligence research team's regular monitoring of investment managers and their products allows Port of Houston Authority to build a more efficient portfolio based on the Port Authority's goals, risk tolerance and investment time horizons. This, combined with the advice from your Institutional Consultants, Brad and Monroe, can help you make the informed investment decisions to reach the Pension Committee's investment goals.

Here are some of the key benefits of the company's rigorous and disciplined evaluation process:

- A regularly monitored roster of managers, screened for performance using deep qualitative and quantitative analysis. The due diligence team closely examines risk at the manager and portfolio level, and thoroughly evaluates investment opportunities.
- A diverse selection of qualified investment managers, covering a wide range of asset classes, investment styles, sizes and regions. After being researched thoroughly, these managers are selected on the basis of risk characteristics appropriate for your investment strategy and on their demonstrated ability to support client objectives.
- Ongoing updates on the performance of the managers, and continuous risk analysis to ensure that the portfolio is in line with its objectives.
- Guidance on picking suitable funds based on different investment themes

The team of analysts overseeing this investment review process is highly trained.

- The due diligence team has approximately 30 professionals dedicated to manager research and selection. These experts work in specialized teams determined by asset classes and investment styles, such as large-cap equity, small/mid-cap equity, international and fixed income strategies.
- The due diligence staff is a group of experienced investment professionals. Of the 18 analysts who directly cover managers or have leadership responsibilities, 13 hold Chartered Financial Analyst (CFA) designations. Additionally, four hold Chartered Alternative Investment (CAIA)

designations. Both credentials represent advanced learning in securities and investment analysis. These 18 analysts average 14 years of industry experience.

- Of the 7,500 investment strategies available at the beginning of 2009, only approximately 700 individual investments were approved for recommendation. This amounts to a selection rate of less than 10% of the available strategies.
- In 2008, the team continually reassessed recommended strategies and also evaluated potential new managers. To both ends, the staff held more than 1,000 meetings with individual investment managers in the U.S.

Fundamental research techniques are central to the Merrill Lynch Investment Management & Guidance (IMG) research efforts. Our research is both qualitative and quantitative. Through the years, we have developed records comprised of proprietary research and analytical information on hundreds of managers.

Our evaluation process of a new firm usually begins with our review of the manager's performance and other quantitative data. We utilize a variety of sources to obtain this information, including proprietary and third party databases. We also request literature from the firm, including marketing brochures, resumes of the investment professionals, sample portfolios, and a copy of their Form ADV Parts I and II (their filing with the SEC to be a registered investment advisor).

These documents are reviewed in preparation for meetings with the managers. Any questions that arise (e.g., legal or regulatory problems, turnover of investment professionals and/or clients, performance issues) are addressed during the meetings.

The Merrill Lynch Managed Solutions Group has over 30 professionals involved in the analytical process of evaluating investment managers and who meet with investment managers both in our offices and at their locations in the U.S. and internationally. Our approach is to analyze investment managers in the same way that an investment manager researches companies.

Whether at our location or at the manager's office, topics covered usually include but are not limited to:

- history and background
- goals and objectives
- ownership of firm and changes in ownership
- compensation
- investment professional staff and changes to the staff
- investment research process: how it is done and who does it
- investment decision-making process: how it is done and who does it
- historical investment performance
- analysis of the composite of investment performance

Performance is analyzed in detail. We examine both absolute and risk-adjusted performance (i.e., the relationship between rates of return and the risk incurred to obtain the returns). Examples of analysis performed include how the manager performed in strong and weak markets and when their style was in and out of favor.

Our Managed Solutions Group Investment Committee, consisting of senior investment professionals, meets periodically to review managers. Professionals who have met with and analyzed a firm make a

presentation to the Committee, which then decides whether or not the firm can be introduced to appropriate clients undertaking manager searches or if additional research is necessary.

4. Do you perform asset/liability studies? If yes, describe your asset-liability model in detail and indicate if the model is proprietary or purchased. State how often you recommend performing an asset/liability study. Provide references, including contact information, for at least two organizations for which you have performed an asset/liability study. The references should be from organizations that have total assets of a magnitude similar to the Port Authority pension fund.

For Asset/Liability Studies, we rely on our partnership with Milliman, a world renowned firm whose analytical experience and Scenario Generator tool offers clients a methodical way to analyze strategies for assets and liabilities to maximize benefit. Milliman's complex simulations are based on realistic market dynamics and form the core of their advice to clients. Merrill Lynch clients who use Asset Liability studies will contract directly with Milliman.

Clients rely on Milliman experts to thoughtfully model possible future economic scenarios. Extensive economic modeling experience, coupled with the latest software tools, enables Milliman consultants to carry out particularly sophisticated economic modeling assignments.

Milliman is experienced in modeling in a real-world framework as well as in a risk-neutral framework. We are sensitive to and can apply specific capital market principles, such as the requirement for scenarios to be arbitrage free.

In working with Milliman, you will be able to rely on specific experience in projecting multiple simultaneous economic factors and considering appropriate correlations. You'll benefit from unusually deep knowledge of stochastic and multifactor simulations.

Milliman's consultants are industry leaders in:

- economic simulation
- analyzing both stochastic and deterministic projections
- designing hedging strategies across the scenarios to minimize costs and tracking error and maximize effectiveness

5. Do you provide educational services? If yes, describe the services you provide and how you provide those services.

Merrill Lynch has been considered the premier Wealth Management firm for individuals and institutions for a number of years. Our ability to bring "Wall Street to Main Street" was founded on many principles, but a core strength is client communication.

Our primary method of providing training and educational services to our institutional consulting clients is through our quarterly reviews. In addition to a review of your portfolio, your institutional consultant will use this time to discuss relevant market topics and issues.

In addition, our Investment Management and Guidance Group and our Ultra High Net Worth Investment Office have published a number of White Papers which are available to our clients

Some of the recent topics include:

"Portfolio Construction and Management Process"

"Importance of Disciplined Asset Allocation"

"Preparing for Your Future: Understanding the Asset Class Assumptions"

As a leader in Global Research we have extensive resources which are available as needed. Some of the reports that may be of interest include:

Introduction To Managed Futures

Hedge Fund Manager Reports

Private Equity Monitor

Commodity Strategist

Fixed Income Weekly Notes

Global Research Highlights

The Market Economist

Global Fund Manager Survey

6. Describe your approach to allocating assets among investment styles.

Just as there is value to be added through diversification of assets among different asset classes, it is our position that value can be added through diversification among different investment styles within an asset class. For example, within the domestic equity asset class, constructing a portfolio of managers that use different approaches for selecting stocks can conceivably reduce portfolio volatility. An analysis of the returns of investment managers, after adjusting for the effects of the general market, has shown that the aggregate portfolio volatility can be reduced.

Our consulting approach uses both qualitative and quantitative techniques to assist you in determining the appropriate long term style weightings for your portfolio. In addition, continuing research by the Managed Solutions Group and the other substantial research resources available through Merrill Lynch will provide you with information on style trends in the marketplace so that the optimal style balance can be maintained. Faced with a dynamic range of investment styles and management processes, our research efforts will help you keep current with investment concepts and practices.

7. What investment styles are tracked in your performance measurement system? Our current allocation is 50% bonds, 50% equity. Are there other classes of investments which should be strongly considered?

We create our main samples and our client samples from our proprietary client performance measurement database - AIM®.

The main samples derived from this "live" database of over several thousand client portfolios include *Balanced, Equity, Debt (Fixed Income)*.

Our specialty samples obtained from the AIM® database include the following client types: *Jointly Trusteed, Public, Endowment and Corporate*.

Our investment style samples are obtained from various databases including the Merrill Lynch proprietary database which tracks several hundred managers that currently manage portfolios for our clients. We

also subscribe to Möbius® Data on approximately 1,300 participating managers and more than 5,000 composites.

All sample data is created on a quarterly basis.

Merrill Lynch proprietary peer group comparison ranking universes include:

Common Stock Only
 Common Stock and Cash
 Balanced
 Fixed Income Only
 Fixed Income and Cash
 International Equity
 International Fixed Income
 Global Equity
 Global Fixed Income
 Convertible
 Long-Term Fixed Income
 Intermediate Fixed Income
 Growth
 Value
 Small-Capitalization
 Small-Capitalization Growth
 Small-Capitalization Value
 Mid-Capitalization
 Mid-Capitalization Growth
 Mid-Capitalization Value
 Large-Capitalization

Large-Capitalization Growth
 Large-Capitalization Value

Mutual Fund Samples:

- Equity
- Balanced
- Aggressive Growth
- Municipal Bond
- International
- Global
- Fixed Income
- Growth
- Value

Client-Type Samples:

- Endowment
- Corporate
- Jointly Trusted
- Public

**8. Within the broad classes of bonds or equity, should there be targeted allocations to subgroups?
 If so, please elaborate.**

Our typical asset allocation study will include the following subgroups:

US Large Cap Growth
 US Small Cap Growth
 International Equity
 Taxable FI Short
 Taxable FI Long
 International Fixed
 Hedge Funds
 Real Assets

Us Large Cap Value
 US Small Cap Value
 Emerging markets
 Taxable FI Intermediate
 High Yield
 Cash/Near Cash
 Private Equity

Portfolio diversification is a critical component of the long term success of well structured portfolio. We feel that the opportunity to utilize more tools or asset classes is an important component of our capabilities. Our Strategic Asset Allocation Modeling process is designed to help identify which of these subgroups are most important given your liquidity constraints and tolerance for risk.

Based on our understanding of your current portfolio, you could expect recommendations that would include greater asset class and manager diversification. Some issues that we would discuss would be to reduce your current allocation and dependence on the U.S. markets and economy from the current 85% to a more globally diversified portfolio with an allocation to international bonds and emerging market equities, and an allocation to Alternative Investments (hedge funds or Real Assets). This could help to reduce potential interest rate risk in what might be a period of rising concerns with inflation.

9. Please describe your view as to the appropriateness of “alternative investments” in a fund of our size.

Brad and Monroe will act as the liaison with the alternative investment area to engage their services under a separate contract. With regard to these alternative investment services, please note that Merrill Lynch serves in a brokerage capacity. We would like to discuss Consulting Services options and alternatives with you further to assist you in implementing your investment strategies using both traditional and alternative investments.

As the specifics of the due diligence process vary from manager to manager, the following should be thought of as a general description of the business and operational due diligence process employed by Merrill Lynch Alternative Investments, LLC (“MLAI”) when performing due diligence on a hedge fund manager.

Merrill Lynch’s business due diligence processes are designed to assess the manager’s business and operational risk. The business and operational due diligence process includes a review of the relevant documents pertaining to the fund and the management company, which may include legal documents, audit reports, compliance manual, Form ADV and DDQ.

Onsite visits with all managers regardless of their geographical location, where meetings typically involve the CFO, COO, Compliance Officer and last on average 3-4 hours depending on the complexity of the fund structure and the products traded.

Some of the key topics discussed with the manager during onsite visits may include:

- Valuation
- Controls around cash movements
- Appropriate segregation of duties
- Adequate staffing with experienced people
- Quality of the systems and the service providers
- Compliance environment
- Trade allocation procedures
- Quality of the reconciliation procedures
- Adequacy of the business continuity and disaster recovery plan
- Review of any legal and regulatory issues
- Conflicts of interests
- Others

MLAI typically also reviews the manager's systems, as well as its service providers, and in most cases, contacts key service providers to confirm relationship and services.

MLAI also conducts a search of news publications covering the past five years on the management company and principals using Lexis Nexis to identify any derogatory information.

Merrill Lynch Alternative Investments LLC

Merrill Lynch Alternative Investments LLC ("MLAI"), is a Delaware limited liability company and an indirect wholly owned subsidiary of Merrill Lynch & Co., Inc. ("Merrill Lynch"). MLAI creates and manages a variety of alternative investment vehicles, including funds of hedge funds, single manager feeder funds, managed futures funds, private equity funds and managed accounts.

MLAI's capabilities in alternative investments date back to 1986 through its predecessor organizations. MLAI is a group of professionals dedicated to the manufacturing and distribution of these fund products to high net worth individuals and institutional clients worldwide. MLAI has offices in New York, Princeton, London, Geneva and Hong Kong and is supported by a dedicated back office.

Overall, Merrill Lynch's clients own more than \$25.6 billion in hedge funds in 100 funds through the firm. Investments are in a combination of direct investment, multi-manager product, structured products and advisory relationships. Approximately \$11.6 billion of client investment is by U.S. clients and approximately \$14 billion is outside of the United States.

The alternatives advisory business provides services to high net worth and institutional investors including hedge fund selection, third-party hedge fund monitoring, and asset allocation. The business is 100% advisory and exclusively uses non-Merrill managers in its portfolios. Its top-down approach to evaluating and developing portfolios is highly analytic. Its process for selecting hedge fund managers is rigorous and is driven by a dedicated origination group which sources managers worldwide for all platforms and a separate due diligence group which analyzes managers from both an operational and investment risk perspective.

The following services provided by MLAI distinguish us from the industry:

- Due Diligence and Monitoring
- Investment Analytics
- Portfolio Construction
- Product Development

Merrill Lynch has enjoyed a legacy of strength and leadership in alternative investments. Separate from our Managed Solutions Group, we deliver alternative investments to clients in the following capacities:

I. Merrill Lynch Alternative Investments, LLC (MLAI)

Our approach to your needs in the alternative investment space can take two different paths. We can provide advice and guidance based upon several best-in-class independent alternative investment firms from our Merrill Lynch sponsored platforms, which include: HedgeAccess, FuturesAccess, and our Off-Platform funds.

These investment opportunities are intended to provide a sample of the diverse offerings available through MLAI. Upon a thorough review of your current assets and investment objectives, the investment team, in conjunction with your Institutional Consultant, can provide a detailed and customized alternative allocation.

II. Sterling Stamos Capital Management, L.P. (Sterling Stamos)

Merrill Lynch's second approach to providing advice and guidance in building alternative investment portfolios for clients involves the introduction of our joint venture with Sterling Stamos Capital Management, L.P. This approach is best suited for clients seeking a complete solution for their alternative investment needs, offering the combined talents of Sterling Stamos' best-in-class hedge fund management and Merrill Lynch's leading wealth management advisory services. This program requires a comprehensive assessment of the client's current alternative investment allocation and results in a wholly integrated portfolio using multiple alternative investment strategies.

Sterling Stamos provides sophisticated alternative investment solutions including hedge fund asset allocation, portfolio construction and management. Sterling Stamos is comprised of 62 investment professionals with an average of 10 years of industry experience. The firm's deep connections in the investment, academic, public and philanthropic spheres have established it at the center of an exceptional network of investors and managers. Built upon a family partnership that began more than 30 years ago, Sterling Stamos selectively opened its doors to high net worth individuals and institutional investors over time. Access to best-in-class fund managers and direct deal flow has enabled the firm to build a unique, integrated investment platform that emphasizes consistent performance, broad diversification and risk management. This broad platform allows the firm to create customized, institutional-quality investment solutions for high net worth families.

10. Describe your recommended policies regarding bonds whose ratings have been downgraded, when and under what circumstances such bonds should be sold.

Our preference is to address this issue during the development of your Investment Policy Statement so that your Investment managers understand their responsibility when an issue is downgraded. Subject to any regulatory constraints we would prefer that the manager have an opportunity to hold a limited number of issues below your minimum until market conditions improve not to exceed 90 days. This approach has helped clients avoid much of the forced liquidations and severe price declines which can occur in the early days following a downgrade. During the interview process with any new potential fixed income managers this is typically a topic of discussion. It may be very important that your fixed Income managers demonstrate a capability and experience with credit upgrades and minimum number of downgrades.

11. Describe how you verify compliance with investment styles.

Using the AIM Report, your Financial Advisors can assist you each quarter in reviewing your investment manager's adherence to the short- and long-term goals and objectives in your investment policy.

Common Stock Analysis

The Merrill Lynch Managed Solutions Group also offers a **Common Stock Analysis** that would provide you with an extensive analysis of the individual stock holdings of the portfolio. The Common Stock Analysis includes the following exhibits:

- **Manager Style Characteristics:** Compares various portfolio characteristics to that of a market index. These characteristics include income yield, five-year earnings per share, price to book value ratio, price to earnings ratio, debt to capital ratio, beta, quality and average market capitalization.
- **Industry Diversification:** Compares your portfolio's industry weightings to that of a market index.
- **Industry Sector Analysis:** Compares your portfolio to a market index and provides insight into the investment managers' stock selection and industry selection decisions.
- **Common Stock Selection Analyzer:** Provides an extensive analysis of the individual stock holdings of a portfolio. It reviews the performance of individual stocks relative to a market benchmark. This exhibit helps to provide insight into the investment manager's skill.

This valuable exhibit also provides analyses on the portfolios':

Data Item	Description
Active Management	Details value added from all common stock portfolio decisions for the quarter.
Transactions Impact	Quantifies the impact of purchase and sale decisions.
Security Weighting Impact	Shows whether the manager is adding value by holding a portfolio of stocks in different proportions.
Diversification Impact	Shows the impact of holding the actual number of stocks versus the top ten holdings.

- **Portfolio Characteristic Detail:** Provides a detailed breakdown of the portfolio by price to earnings ratio, price to book ratio, income yield and five-year earnings per share.
- **Market Capitalization Analysis:** Provides a detailed breakdown of the portfolio by market capitalization.
- **Portfolio Concentrations:** Provides portfolio information such as top ten holdings, economic sector weightings, and top twenty industry weightings.
- **Stock Holdings:** Provides manager style and risk characteristics for each stock held in the portfolio in addition to providing each stock's economic sector and industry sector.
- **Position Change Report:** Reports all increased positions, new positions and closed positions in your equity portfolio for the quarter.
- **Proxy Proposal Report:** Provides proxy record date, meeting date and pass/fail information for companies in your portfolio.

12. Describe how benchmarks are developed and how performance is compared to relevant items.
Describe what you consider relevant comparisons.

Determining the appropriate performance benchmarks for your investment managers and the Funds as a whole is one outcome from the investment policy development process. Determining the appropriate benchmark for an individual manager involves both quantitative analysis but also judgment.

The benchmark selection process can include:

Determination of an economic objective – The primary objective of the portfolio would be to satisfy an economic objective, such as earning a premium over inflation or meeting plan liabilities. One benchmark would be a determination of an appropriate premium that is commensurate with the risk of the asset class and the investment manager's style.

Quantitative analysis – Examine historical correlations of the investment manager's returns to possible market indexes. Returns-based style analysis is a useful tool in this analysis to compare market indexes and manager returns.

Qualitative analysis – Discussions with your investment manager(s) and a Merrill Lynch Managed Solutions Group analyst can be useful in providing insight into the manager's investment process, as well as complementing the quantitative analysis.

Benchmark selection for the Funds as a whole can follow a similar approach. In general, the Fund benchmarks are a weighted average of broad asset class indexes (e.g., the Russell 3000 and a broad investment grade bond index).

However, if the broad market indexes do not closely match the historical risk level of the policy asset allocation, sub-indexes may be necessary in the composite index. For example, instead of just the Russell 3000 as a proxy for the domestic equity market, you may want to sub-divide into the Russell 1000 as a proxy for the large capitalization equity segment and the Russell 2000 as a proxy for the small capitalization equity segment.

The Merrill Lynch Standard AIM Report offers many customized exhibits to analyze the performance of portfolios. The exhibits include:

- **Peer Group Rankings** - Comparison of percentage returns with an appropriate sample of professionally managed portfolios
- **Market Index Benchmarks** - Comparison of performance results with various market indexes such as the S&P 500 and the NASDAQ
- **Customized Benchmarks** - Comparison of performance results with market indexes in weightings that match your portfolio's objectives.
- **Sources of Portfolio Market Value Growth** - Analysis of the sources of the portfolio's dollar growth showing investment earnings versus net contributions
- **Performance Attribution** - Analysis of the impact of the manager's allocation and security selection decisions, in both percentage return and dollar terms
- **Risk Measurement** - Comparison of the portfolio's performance with market levels of risk and return

With this information from the *AIM Report*, you will not only know *how well* your portfolio has performed, you will also understand the *reasons* for the performance.

We have a database, which tracks the performance of over 200 market indexes. Working with your Financial Advisors, you will be able to select the indexes that meet your specific needs. Additionally, these indexes are used to create customized benchmarks for specific comparisons of your portfolio's results.

Any of these comparisons are used throughout the AIM Report. We also use our performance database to create various comparison samples. These include our main samples, balanced, equity, fixed income, international and our style samples, growth, value, market timer, yield, sector rotator, small capitalization, small capitalization growth, small capitalization value, large capitalization growth, and large capitalization value.

13. What information systems do you use to produce your reports? How frequently are reports produced?

The Merrill Lynch Managed Solutions Group has extensive technology resources, backed by the Firm's ongoing commitment to provide employees with the finest tools available.

Systems and software are developed internally or purchased based on the specific need or application. This allows for continued product development and the introduction of state-of-the-art analytics.

The Merrill Lynch Asset and Information software was developed by Merrill Lynch and two outside vendors; Spectrum Graphics (formerly Precision Visuals) of Boulder, Colorado and Effron Systems of Portchester, New York. The original system has been in place since 1987 and currently runs on a Prime Computer. The system has been continually enhanced since that time.

We continue to review and refine the analytical techniques and methods of presentation in the AIM Report, with consequent changes made to equipment to meet these enhancements.

14. Do you solicit or accept fees for placing investment managers or for including investment managers in your universe for placement? If so, describe the circumstances and process.

The Merrill Lynch Managed Solutions Group receives no compensation from investment managers. The Managed Solutions Group **does not**:

- Charge investment managers for inclusion in our manager search database or
- Accept referral fees or any other compensation from managers as a result of introductions.

Also, product support, including manager research, is performed by the Managed Solutions Group's analysts compensated on a salary and bonus basis.

15. Describe how you detect early problems with investment managers. Provide examples of the tools used and the recommendations given. Remove all names from the examples to protect confidentiality.

There are many ways in which qualitative problems are identified in investment management firms. Problems are often identified during our meetings with firms, both at their locations and in our offices. On occasion, problems are brought to our attention during meetings with our consulting clients. Further, our nationwide network of Financial Advisors provides us with valuable information about local investment managers. Also, just as equity analysts use competitors and suppliers to provide information about companies being researched, we speak with other investment managers about particular firms. Finally, our research includes speaking with employees who have left a firm, as they often provide frank assessments of their former employers.

A variety of "red flags" could be signs of potential problems which would lead to additional research. For example, the departure of key investment personnel could be caused by a lack of adequate compensation or ownership possibilities, making it questionable whether the firm can attract and retain good investment professionals. If the departed individuals were key in generating historical performance, their departure could invalidate the historical track record.

Client losses are an obvious sign of potential problems with, for example, performance or client servicing. Large growth in assets under management, clients, and/or investment professionals also bears watching. Will the firm still be able to implement its investment process? Will client servicing be compromised if each client service professional must now cover more clients? Will the new staff be easily acclimated into the research and decision making process? Are the firms' operations and administration adequate to handle the influx of new accounts?

As mentioned earlier, ownership (concentration with few individuals) and compensation are important issues to be monitored. A change in ownership must be monitored carefully. Will the new owner let the firm run autonomously or will it interfere with the investment process, personnel, compensation, etc.?

A review of the firm's form ADV (their filing with the SEC to be a registered investment advisor) may lead to the discovery of legal or regulatory problems with the firm or its personnel and should be addressed.

16. Describe how you deal with problems with investment managers.

Reviewing the Manager

Your Financial Advisor, Brad and Monroe, is available to assist the Port of Houston Authority Pension Plan on a quarterly basis in monitoring adherence by portfolio manager(s) to the investment objectives and guidelines established by the Port Authority's investment policy statement. Using information provided in your AIM performance measurement report, as well as custodial statements for individual security holdings, your Financial Advisor can assist the Port Authority in accomplishing this review.

Placing a Manager on Our Watch List

An investment manager is placed on our watch list if there are issues that require more intensive monitoring. Under these circumstances, we will meet with the firm more frequently until the issues have

been resolved to our satisfaction. Examples of such issues include changes in ownership, turnover of investment personnel, and poor performance.

It is not unusual for us to meet with a firm five or more times in a year when such events occur. In addition, rapid growth of assets under management could trigger additional visits to determine how well the firm is managing its growth.

Once the issues are resolved, the investment manager will be removed from our watch list.

Terminating a Manager

There are certain circumstances which require a serious review of a relationship with an investment manager. These circumstances can be specified in an investment policy statement so that the manager knows, when hired, under what circumstances it might be terminated.

These circumstances could include:

- the failure to meet investment objectives and performance standards
- violating constraints specified in the investment policy statement
- failure to adequately communicate or otherwise service the client
- significant changes in investment style, personnel, ownership or other areas which would lead one to conclude that the firm was no longer the firm originally hired.

These circumstances and others would be evidence that the investment manager may no longer be an appropriate manager for your assets and that the firm would probably not be able to add value to the client's investment performance.

17. Do you facilitate the transfer of assets between investment managers? If yes, describe the process.

Merrill Lynch strives to provide clients with a seamless transition to the Consulting Services. A transition team composed of your Institutional Consultant and other administrative staff will be assigned. This team would work with your administrative staff to communicate what documents we would need and to educate them on various issues.

Minimizing Costs in a Manager Transition

In the event of a change in fund manager, Merrill Lynch recommends that a terminated manager should not sell the existing portfolio to transfer cash to a new or existing manager. Instead, the manager hired to replace the terminated manager should first have the opportunity to examine the existing portfolio to determine if the replacement manager wishes to retain any of the securities in the portfolio. Remaining securities should then be circulated to other current fund managers to determine if they are prepared to receive any of the remaining securities. These actions can minimize transaction costs for clients.

18. Provide specific examples of how you have added value for your clients.

The *Institutional Consulting Group* leverages the industry-leading strength of Merrill Lynch to deliver investment solutions that fulfill the needs of Institutional Clients. With over 35 years of institutional

expertise and innovation, the Institutional Consulting Group delivers powerful, and extensive, global resources to help clients strike the right balance of risk and return to effectively manage and grow their portfolios.

As Investment Consultants, our opportunity to add value is centered on our core services. The development of your Investment Policy Statement sets the stage for communication between the Trustees, Investment Managers and Investment Consultant.

Our Asset Allocation modeling capabilities help plan sponsors to determine the appropriate level of risk tolerance for their fund as well as to quantify the benefits of future portfolio diversification. The extensive resources committed to Manager Research and Due Diligence help clients manage risk and add value. The managers we have recommended to clients rank in the top half of the universe rankings.

Our quarterly performance reviews deal with a number of portfolio issues which have historically added value. Most important is the ability to identify the need to rebalance a portfolio to your target allocations. Also this report will quantify the sources of alpha in your portfolio. How much came from the managers security selection and the impact of shifts in asset allocation are combined for total active management.

19. Provide a list of all new accounts for professional evaluation and consulting services to qualified plan sponsors in the last five (5) years. Structure this list by year. Show type of client, e.g., by industry, public sector/private-not for profit, type of plan, size of plan, and date your services were required.

Due to the Firm's client confidentiality policies, which would also protect the Port of Houston Authority Pension Plan as a Merrill Lynch client, we cannot provide references at this stage of the RFP process. However, we would seek to obtain client approval to provide references upon further request of the Port Authority.

20. Provide a list of all accounts lost in the last five (5) years. Structure this list by year. Show type of client, e.g., by industry, public sector/private-not for profit, type of plan, size of plan, date the client was lost, and the reason the client was lost.

Due to client confidentiality policies, which would also protect The Port of Houston Authority Pension Plan should the Trustees choose Merrill Lynch, we cannot disclose the names of these clients.

C. Your Team

1. Provide the names and location(s) of the team members who will be responsible for this account.

The Addresses of the Primary Consultants Serving Your Account

Brad Osborne, CIMA, Private Wealth Advisor
Institutional Consultant
 Merrill Lynch
 100 Grandview Place 2nd Floor
 Birmingham, Alabama 35243
 Telephone: 205-298-7402
 Fax: 205-453-1696
 Email: *brad_osborne@ml.com*

Monroe Crawford, Jr.
Senior Financial Advisor
 Merrill Lynch – One Houston Center
 1221 McKinney Street
 Houston, Texas 77010
 Telephone: 713-658-1225
 Fax: 713 574-2613
 Email: *e_crawfordjr@baml.com*

2. Provide a resume or brief biography of each team member.

*Primary Coverage for
 The Port of Houston Authority Pension Plan*

Primary coverage of your account is through the Merrill Lynch offices in Birmingham, Alabama, and Houston, Texas. Servicing your account will be Institutional Consultant **Brad Osborne, CIMA**, *Private Wealth Advisor*, in the Birmingham office and **E. Monroe Crawford, Jr.**, *Senior Financial Advisor* in Houston.

Brad A. Osborne began his career with Merrill Lynch in 1980 and in 1984 began his work with the Managed Solutions Group. Brad's special areas of technical expertise lie in strategic asset allocation modeling and evaluating the historical performance of Investment Managers. Currently, he is one of just over 60 Financial Advisors who make up the Investment Consulting Group at Merrill Lynch. He is a consultant to clients throughout the Southeast for public, corporate, Taft-Hartley retirement funds, and several endowment and Foundation funds. A featured speaker at Merrill Lynch training programs for new Financial Advisors seeking accreditation to represent consulting services. Brad has also served as a speaker at the Managed Solutions Group's annual conferences. He has spoken to professional groups around the country and has been a featured speaker at the Wharton School of Business regarding strategic asset allocation modeling. He is an active member of the Investment Management Consulting Association. He is a graduate of Auburn University with a B.S. in Business/Finance. He completed M.B.A. course work at Samford University and the University of Alabama at Birmingham. In 1989, he completed IMCA's Certified Investment Management analyst program.

E. Monroe Crawford, Jr. joined the Merrill Lynch Houston office in May 2001. Monroe has utilized his previous institutional experience to manage the financial assets and create solutions for the specialized needs of affluent investors and small businesses. Preceding Monroe's consulting experience, he worked in New York City for eight years, trading foreign exchange for large foreign money center banks: ABN AMRO, Credit Lyonnais, and Sakura Bank and assisting in their efforts to increase their foreign exchange presence in North America. As a successful fundamental trader, he gained an in-depth knowledge of global capital markets, international macroeconomic policies, investment and hedging strategies, and geopolitical events. Much of his success was dependent on building informative and profitable

relationships with clients and counter parties. In addition to Monroe's trading duties, he composed weekly and monthly market forecasts and summaries for institutional clients and interdepartmental offices.

Monroe received his M.B.A. in Finance from the Cornell University Johnson Graduate School of Management in 1987 and a B.A. in Economics from Dartmouth College in 1984. During college, he studied French at the University of the Sorbonne in Paris and played Junior Varsity Lacrosse.

Presently, Monroe lives in Houston with his wife, daughter and son and enjoys exercise and the outdoors. He is also a Southwest Outward Bound School Alumnus.

3. Name the current clients of each team member. Identify the type of client, type of plan, size of plan and how long each team member has provided services to the client.

Partial Client List – Brad Osborne

<u>Client</u>	<u>Type</u>	<u>Size</u>	<u>Tenure</u>
Jefferson County General Retirement System	Public	NA	24 Years
Birmingham Southern College	Foundation	NA	14 Years
Alabama Reinsurance Trust Fund	Insurance	NA	8 Years
Alabama Guaranty Association	Insurance	NA	7 Years
Easter Seals of Alabama	Pension	NA	4 Years
Funeral Services Inc.	Other	NA	5 years
University of Tampa	Foundation	NA	6 Years
University of Montevallo	Foundation	NA	18 Years
Greater Alabama Boy Scouts	Foundation	NA	12 Years
LaGrange College	Foundation	NA	7 years
NECA IBEW Local 1205	Retirement	NA	2 Years
Reinhardt College	Foundation	NA	4 Years
Millwright and Machinery Local 1192	Retirement	NA	12 Years
Alabama Institute for the Deaf and Blind	Foundation	NA	2 Years
LPGA Association	Retirement	NA	2 Years

4. Describe the qualifications of the team members.

Please refer to the profiles under Question #2 in this section, above.

5. Will your company and each member of the team accept fiduciary responsibility for your services as part of this contract?

As an investment adviser registered with the SEC, pursuant to the Investment Advisers Act of 1940, we owe a fiduciary duty to act in the best interest of our clients and to place the interests of our clients before our own. Merrill Lynch's duty in this regard requires it to act with high standards of conduct, care, and loyalty to our clients and to fully disclose potential conflicts of interest. Merrill Lynch is willing to specifically acknowledge this duty under the Investment Advisers Act of 1940 in our written agreement with a client.

6. Describe the team's experience with preparing, reviewing and recommending changes to investment policies, guidelines and objectives.

Merrill Lynch takes an individualized approach to the development of your overall investment policy. The approach is based on your unique situation and needs. The process is also designed to document that the investment policy was developed logically and objectively.

We believe that the development of a policy is a critical phase of the investment process. Accordingly, Brad and Monroe will work closely with you from the outset of the relationship to gather information needed to develop a profile of your investment goals and your risk tolerance. Throughout this process, your Wealth Management Advisor will coordinate all consulting efforts involving you, Merrill Lynch headquarters consulting staff, and your investment managers.

The information gathered from the profiling process would be used to create an initial draft of an investment policy statement for your review. This statement will typically include such topics as your overall investment philosophy, your rate of return objectives, the desired risk level, investment and quality constraints, time horizon for achieving results, and performance evaluation benchmarks. Your comments regarding the initial draft will be used as input for a final version of the investment policy statement, designed to communicate clearly to each of your investment managers your portfolio's investment goals, as well as the guidelines for achieving them.

Once the investment policy has been adopted by your Investment Committee and other parties involved, the document serves as the ongoing framework for the long-term management of the portfolio. For example, the investment policy will provide background and objective evaluation criteria for the performance review of the investment managers and the portfolio as a whole.

7. Describe how you will monitor compliance with the investment policies, guidelines and objectives.

Delivered quarterly, the AIM Report analyzes the performance of both the total portfolio and of each investment manager's segment. Brad and Monroe can assist you in reviewing your investment manager's adherence to the short- and long-term goals and objectives in your investment policy.

The AIM Report contains many exhibits which may be customized to reflect your specific goals and objectives. One such exhibit will plot your actual investment results versus those received from a hypothetical investment such as CPI +3%, as well as any other specific goal you may have.

8. Do you envision managing a portion of the assets?

No. Except on request by the client, in the Consulting Services the investment manager candidates presented to the client will be firms that are not affiliated with Merrill Lynch. Once a final group of investment manager candidates has been identified, clients are presented with summary information in a format designed to help them make comparisons among the investment managers.

9. How do you propose that the Pension Committee measure and evaluate your performance?

The Consulting Services business unit is constantly seeking to enhance client satisfaction. The way we monitor this is through the interactions of the local Financial Advisor team and the Institutional

Consultant. Our service model is a procedure that goes above and beyond client requirements to insure the best client experience.

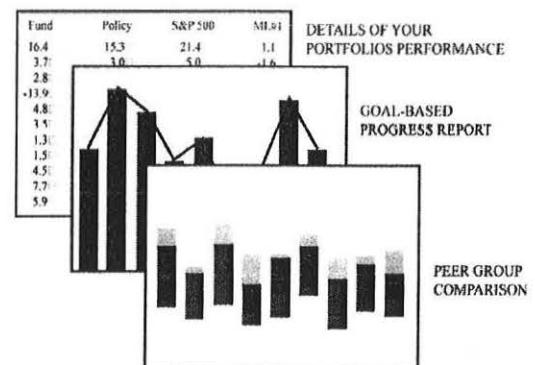
The simplest measure of client satisfaction is client retention. Your Institutional Consultant has only lost one client, due to acquisition, and 1 due to change in Administrative Staff over the last 5 years.

Overall, the Consulting Services business unit enhances the services it provides based in large part upon the feedback received from our marketing and sales team, Financial Advisors, and clients.

10. Describe what materials will be provided for performance evaluation and how that material will be prepared. Describe the quality controls in place to ensure the integrity of the information provided. Please include samples of your performance measurement reports.

Merrill Lynch has been providing portfolio performance measurement services for over 35 years. Our Asset Information and Measurement (AIM®) Report provides you with state of the-art portfolio evaluation techniques. It is designed in a clear easy-to-read format, which uses charts and graphs to tell the story of your portfolio's performance results.

AIM helps you evaluate your portfolio's progress toward goals by measuring three significant elements of performance:



- **RETURN:** how much your portfolio has earned,
- **RESPONSIBILITY:** the factors or reasons for these results, and
- **RISK:** the level of risk taken to achieve the results.

A special feature of the AIM performance reviews is the focus on the reasons for your portfolio's performance results. AIM evaluates the three most important factors responsible for a portfolio's return: the investment environment, the investment manager's active management decisions and the portfolio's investment policy constraints.

At your convenience, meetings can be scheduled with your Wealth Management Advisor to review the AIM Report in detail.

THE COMPREHENSIVE AIM REPORT

The **Comprehensive AIM Report** is designed to help monitor your portfolio's performance in addition to your progress toward your financial goals. The report provides answers to such essential questions as:

- Is the portfolio's current asset allocation consistent with your investment strategy?
- What is the current value of the portfolio, after considering all deposits and withdrawals?
- Are your investment objectives being achieved?
- Is the level of risk in the portfolio acceptable and consistent with your stated risk tolerance?

The report format provides both easy-to-read charts and detailed numerical information about portfolio performance. In the Comprehensive AIM Report, much of this information is reported for the ***total portfolio***, in addition to ***each of its asset classes*** (i.e., equities and fixed income).

This is just some of the valuable information included in the ***Comprehensive AIM Report***.

- **Goal Monitoring:** If you have a financial goal, the report will compare your account's return to what it would have achieved if it had earned a return equal to your selected goal. In addition, it can show how your portfolio is doing compared to the Consumer Price Index, which is a measure of inflation.
- **Asset Allocation:** Shows the current asset allocation of the account in addition to the historical asset allocation of the account for past quarters.
- **Market Index Comparisons:** Provides a comparison of performance results with appropriate market indexes including broad market indexes such as the Wilshire 5000. In addition, style specific indexes can be selected for comparison.
- **Sources of Portfolio Growth:** Analysis of the sources of the portfolio's dollar growth, detailing investment earnings versus net contributions.
- **Performance Attribution:** Analysis of the impact of the manager's investment decisions, detailing the separate effects of asset allocation and security selection decisions.
- **Risk Analysis:** Risk measurement (standard deviation) and comparison of the portfolio's risk adjusted performance with market levels of risk and return. Expanded risk measures also include beta, alpha, Sharpe ratio and diversification indicators.
- **Market Cycle Analysis:** Comparison of portfolio returns to market index returns for various market cycles.
- **Strong & Weak Market Analysis:** Comparison of portfolio returns to a market index for various strong and weak market periods.
- **Peer Group Comparisons:** Comparison rankings of your portfolio versus the returns of other professionally managed accounts measured by Merrill Lynch. Your portfolio can be compared to general samples such as equity, balanced, fixed income and international. In addition, you may want to choose from our style-specific samples such as growth, value, market timer, yield, sector rotator, small capitalization, small capitalization growth, small capitalization value, mid capitalization, large capitalization, large capitalization growth, large capitalization value, global equity, or global fixed income.
- **Portfolio Valuation:** Summary of monthly cash flows and portfolio valuations.
- **Common Holdings Report** – Lists all common stock positions held in your portfolios. Provides insight into the number of managers holding a given position. Also, shows the aggregated weighting of individual companies held across all managers. Provides insight into the portfolio's level of diversification.

Quality Controls

To assure accurate performance measurement reports, Merrill Lynch Consulting Services implements several quality control measures.

For example, Merrill Lynch uses client custodial statements to obtain data for all its performance measurement return calculations. Merrill Lynch will make pricing adjustments (if necessary) to generate the most accurate portfolio return. In addition a performance analyst will compare the return calculated for a portfolio to relative benchmarks. This will help determine the viability of the calculated return.

13. Please provide a report showing the combined results of your clients' investments for the previous one, three, five and ten years. For clients you have provided services for only a portion of the time periods requested, state the time period for which you have provided services.

As we are providing an advisory service, Merrill Lynch does not track this information.

14. Do you accept compensation, either directly or indirectly, from the investment managers you recommend?

Merrill Lynch Consulting Services follows practices designed to control conflicts of interest and ensure that clients' interests come first. For example, Consulting Services: (1) does not introduce investment managers affiliated with Merrill Lynch to clients unless so requested, (2) does not charge investment managers for inclusion in our manager search database, (3) does not accept referral fee payments from managers as a result of client selection, and (4) does not offer consulting services, including performance measurement, to investment management firms.

Each manager search performed by Consulting Services is unique and customized based upon each client's specific circumstances, such as their investment objectives, risk tolerance, constraints, and servicing requirements. The Consulting Services group offers a choice of investment manager candidates to clients based upon their specific needs and goals. We have at our disposal databases of investment managers for separately managed portfolios that include hundreds of managers. The Consulting Services group is not paid by any investment manager for inclusion in client recommendations.

It should be noted that investment managers may pay for, or reimburse Merrill Lynch to cover, various costs arising from client and prospective client meetings, sales and marketing materials, and educational, training and sales meetings held with Financial Advisors and other Merrill Lynch personnel relating to Consulting Services and asset management. These managers may also make charitable donations or cover the costs of reasonable entertainment in connection with Merrill Lynch sponsored or client related events. Merrill Lynch's reimbursement and cost-sharing policies (1) are fully disclosed; (2) meet regulatory requirements and industry practices; and (3) enhance the knowledge and expertise of our clients and Financial Advisors.

15. Have you, or any of your affiliates, or any of the team members:

- Undergone bankruptcy?
- Undergone liquidation?
- Undergone a proceeding similar to bankruptcy or liquidation?
- Had a license revoked?
- Had their investment or consulting activities restricted?
- Been sued by a client?
- Been found liable or guilty in an administrative, civil, or criminal matter or proceeding by any federal, state or local authority (other than misdemeanor, non-moving traffic violations)?
- Been sued or investigated by the Securities & Exchange Commission, the Department of Labor, the Texas Pension Review Board, or any other federal, state or local authority?
- Been denied liability insurance or a fidelity bond?

Please elaborate on any yes answers to the above questions.

For the firm wide response from Merrill Lynch, please refer to the answer under Questions #2 and #3 in the first section, **A. Your Firm**, above.

Your Senior Financial Advisor, Monroe Crawford, and Institutional Consultant, Brad Osborne, answer no to the questions, above.

D. Your fees

This section of the proposal is provided in a separate envelope, as requested by the Port Authority.

E. Our firm contract is attached as exhibit A. Please review it carefully.

F. Provide at least three references (with client name, address, telephone number and contact person), from clients for whom you currently provide, and for the past three years, have provided, pension consulting services.

Jefferson County General Retirement System
716 Richard Arrington Blvd, Room 430
Birmingham, AL 35203
Cathy Crumley
205.298.7402

LaGrange College
601 Broad Street
LaGrange, GA 30240
Marty Pirrman
706.880.8232

Funeral Services Inc
P. O. Box 13407
Tallahassee, FL 32317
Bill Williams
850.425.1340

G. Any other information you wish to provide.

Strength in Research Firm Wide

The Bank of America - Merrill Lynch merger expands our combined capabilities to deliver world-class products and services to our clients through size, scale, and a strong presence in both U.S. and international markets, positioning us exceptionally well to compete in the global marketplace. Together, our geographic and earnings diversity, liquidity and capital strength, ensures that our Global Research franchise provides clients with an unparalleled depth and breadth of research expertise, creating the #1 premiere research franchise on Wall Street.

Banc of America Securities - Merrill Lynch research expertise is at the core of the value proposition offered to clients and is an integral component of the product offerings in GWM, Global Markets and IBK. Our Research analysts provide insightful, objective and decisive research that is designed to enable clients to make informed investment decisions.

Banc of America Securities - Merrill Lynch has one of the most respected research organizations in the world with more than 800 analysts focusing on three main disciplines:

- Within **Equity Research** the breadth and depth of our department is unparalleled. Analysts provide fundamental analysis on more than 3,200 companies domiciled in 50 countries. Equity research also provides institutional and individual clients with industry-specific research and in-depth global research and analysis on more than 20 global industries.
- **Global Credit Research** encompasses High Grade, High Yield, Credit Strategy, Credit Derivatives, Mortgages and other Structured Finance, Convertibles, Municipals and Indices. Our analysts provide in-depth capital structure analysis for Corporates and offers value-added investment ideas for today's Credit-driven financial markets.
- **Global Macro Research** encompassing Global Economics, Currencies, Commodities, Rates, Derivatives and Equity Investment Strategies, offers in-depth analysis of critical global issues, across disciplines, regions and asset classes, providing clients with investment ideas, market forecasts and macro overviews.

Our analysts work together as collective and integrated regional teams to provide the highest value, alpha-generating Research to our clients. This includes investment recommendations, organizing investor conferences, organizing one-on-one meetings with institutional clients and vetting investment banking transactions.

They create commercially relevant products for our clients and effectively capitalize on opportunities within growing areas including the emerging and developed markets. Research analysts provide clients with most/least preferred lists, equity and FICC indices, portfolios, recommendations on individual securities, industry outlooks, market outlooks and forecasts and investment strategies.

Research serves multiple constituents. Internally, we serve GWM, Global Markets Sales & Trading, IBK, Debt and Equity Origination, commodities and the FX desks. Externally, Research serves individual investors and a wide variety of institutional money managers including: hedge funds, mutual funds, pension funds and sovereign wealth management funds. Additionally, analysts interact extensively with venture capital funds, private equity funds, corporates and governments.

Research Rankings

The Global Research Group has consistently achieved high rankings for its equity and fixed income research in numerous regional and global investor.

- Ranked #1 in the 2009 *Forbes/Zacks* U.S. analyst rankings for stock picking and estimate accuracy, capturing more than twice as many awards than the runner-up. Seven BAS-ML analysts were also named to the *Forbes/Zacks* "Dazzling Dozen" list. (BAS-ML)
- Ranked #1 in the U.S. in the 2009 *Financial Times / StarMine* broker rankings for earnings forecasts (BAS-ML)
- Ranked #2 in Latin America in the 2009 *Financial Times / StarMine* broker rankings for earnings forecasts (BAS-ML)
- Ranked #2 in Latin America in the 2009 *Financial Times / StarMine* broker rankings for earnings forecasts (BAS-ML)
- Ranked #3 in *The Wall Street Journal* 2009 Best on the Street Stock Picking Survey (ML)
- Ranked #3 in the 2008 *Institutional Investor* All-America Equity Research Team Survey (ML)
- Ranked #3 in the 2008 *Institutional Investor* All-America Fixed-Income Research Team Survey (BAS)
- Ranked #4 in the Bloomberg Markets 2008 "The World's Best Stock Pickers" survey. (ML)

We believe the way we *deliver* our Consulting Services makes us the best firm you can select. To provide local delivery of the services, Merrill Lynch utilizes an experienced Financial Advisor based in your area, teamed up with a regional Institutional Consultant and backed by headquarters analytical staff who maintains the services' technical quality.

We do this because we believe what truly sets us apart is *our people*. For example, everyone uses numbers, charts and graphs to provide performance measurement to their clients. The difference is the *people* who are delivering this information to you.

We believe Merrill Lynch can best interpret your performance numbers and tell you what they mean for your investment situation better than anyone else. Because of our local presence, we can listen to you and understand your needs. We can gather information and communicate results in a manner you can understand and appreciate.

Consulting Services Specialties

The Merrill Lynch Managed Solutions Group offers an Investment Policy Service, Strategic Allocation Modeling Service, Manager IdentificationSM Service and performance measurement through our Asset Information and Measurement[®] Service (AIM[®]).

Consulting Services Strengths

Here are some examples of how our institutional consulting services distinguish us from our competitors:

Asset Allocation Modeling Service

There are several aspects of our *asset allocation modeling studies* that differentiate us from our competitors.

- The foundation of our asset allocation work rests in our forward looking capital market assumptions. As a capital markets organization, we believe that history can make a poor predictor of future levels of returns and volatility. Therefore, to deliver asset allocation models that help clients make critical decisions, Merrill Lynch uses the full breadth of its research and capital markets resources. The Managed Solutions Group, in partnership with a Global Research Group of 800+ investment analysts, creates a matrix of forward looking returns and risk for 26 different asset classes.
- Customized analysis that would take into account your current investment risk, cash flow requirements, possible liquidity needs, current and future liabilities, drawdown sensitivities and other needs;
- Multiple probabilistic scenario analyses to stress test the portfolio under alternative capital market assumptions
- Practical advice and interpretation of the results of the asset allocation exercise

Manager Identification Service

What sets Merrill Lynch's *Manager IdentificationSM Service* apart from the competition is our extensive fundamental approach to investment manager research and the resources that only a global research firm can deliver.

Our comprehensive quantitative analysis and research is augmented by our most important database - the information we discern during our visits with investment managers. While we deploy the most sophisticated set of quantitative tools available to the industry, we deliver real value to clients and portfolios in the qualitative work of our research analysts. The investment manager research team numbers greater than 40 dedicated, experienced and detail-oriented investment professionals that conduct intensive qualitative due diligence of investment strategies worldwide.

We believe that sitting across a table from a portfolio manager is the only way to analyze what has happened in a managed portfolio but more importantly, it is the only way to have a view on what could happen going forward. As a result, our clients know that when the Merrill Lynch Managed Solutions Group conducts a manager search, the managers introduced to our clients have been visited, researched and analyzed. This philosophy on due diligence has lead to the establishment of investment manager research teams in Europe and the Far East. Our staff travels extensively nationally and internationally in an effort to source and research the very best investments to present to our clients. All of the costs associated with our in-depth research are borne by us. Managers never pay a fee to be included in our manager identification service.

AIM Service

AIM is a *proprietary* performance measurement service. Delivered quarterly, the AIM Report analyzes the performance of both the total portfolio and of each investment manager's segment. AIM provides a clear and thorough analysis of the quarter's performance of your account(s) relative to the relevant investment markets as well as to the fund's investment goals, objectives, and risk tolerances as described in the investment policy statement.

The way we deliver this service sets us apart from our competitors. Meetings will be scheduled by your Financial Advisor, at your convenience to review (in as much detail as you desire) the AIM Report and related documents. They will assist you in interpreting the performance measurements contained in these reports.

Strength in Research

The research efforts of Managed Solutions Group, along with the research efforts of Merrill Lynch as a whole, are substantial. Merrill Lynch & Co. possesses one of the most comprehensive, in-depth research capabilities in the entire securities industry. Specific areas of research are covered by several specialized research departments, whose research analysts number greater than 800 investment professionals. Some examples are:

- Economic research
- Portfolio strategy research
- Fixed income and equity securities research
- High-yield bond research
- Pension fund research

This research, performed more broadly at Merrill Lynch, informs all of the work that we conduct for our institutional clients. Importantly, the views that we cultivate regarding the global economy or the global markets are a heavy influence to the specific research we conduct on investment managers. Managed Solutions Groups due diligence efforts are world class in every regard.

Our fundamental philosophy regarding manager research is that while quantitative screening is useful for the culling of large numbers of available strategies into manageable pools of talent, it is in no way a replacement for solid, fundamental qualitative due diligence on investment strategies. Our comprehensive quantitative analysis and research is augmented by our most important database - the information we discern during our visits with investment managers. While we deploy the most sophisticated set of quantitative tools available to the industry, we deliver real value to clients and portfolios in the qualitative work of our research analysts. The investment manager research team numbers greater than 40 dedicated, experienced and detail-oriented investment professionals that conduct intensive qualitative due diligence of investment strategies worldwide.

We believe that sitting across a table from a portfolio manager is the only way to analyze what has happened in a managed portfolio but more importantly, it is the only way to have a view on what could happen. As a result, our clients know that when the Merrill Lynch Managed Solutions Group conducts a manager search, the managers introduced to our clients have been visited, researched and analyzed. This philosophy on due diligence has lead to the establishment of investment manager research teams in

Europe and the Far East. Our staff travels extensively nationally and internationally in an effort to source and research the very best investments to present to our clients. All of the costs associated with our in-depth research are borne by us. Managers never pay a fee to be included in our manager identification service.

Our manager research process involves:

- Quantitative screening of industry databases for possible candidates (PSN database, Morningstar, Lipper). No fees charged to the investment managers for being included in these independent, objective databases.
- RFP process to begin to learn more qualitative information about each strategy
- Robust, holdings-based quantitative screening to further discern skill from luck. Analytic tools from BARRA, BIRR, FactSet, Wilshire and Thompson (Vestek) are used to rationalize the portfolios holdings, the portfolio managers philosophy, existing market conditions and the resultant returns.
- Face to face interviews of key investment professionals. Merrill Lynch will always meet with key professionals before a decision to recommend a strategy is made. Typically, this process includes an initial meeting in the Merrill Lynch location followed by meetings at the manager's location.
- Review by the assigned investment analyst of all known opinions and facts based on our proprietary, 8 factor model.
- Investment committee review and approval.