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Rafik Ghazarian
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August 2, 2011

Mr. Stephen W. Lenhardt
Deputy Commissioner for Administration and Finance
Department of Higher Education
One Ashburton Place, Room 1401
Boston, MA 02108-1696

Re: Price Proposal to Provide Investment Consultant Services

Dear Mr. Lenhardt:

As an independent consulting firm, we have no affiliation with brokerage organizations and investment management firms. We receive no brokerage commissions from and we do not sell services to investment management firms. All of our revenues are generated by our consulting services to client funds. We believe that this philosophy avoids any possible conflicts of interest.

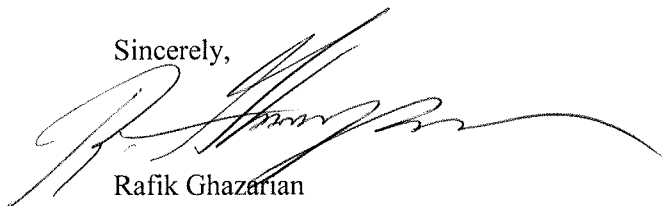
Many investment performance advisors have agreements with brokerage houses to have portions of the commissions on stock trades rebated to them to pay for their investment performance consulting services. The rebates are known as "soft dollars." In keeping with our philosophy to have no affiliations with brokerage organizations or investment management firms, Segal Advisors has no "soft dollar" arrangement. We are compensated solely on a "hard dollar" basis.

Our fee includes:

- > Quarterly reports of the Plan's investment performance;
- > Annual reviews of the Plan's service providers' administrative services;
- > On-site attendance at the Plan's oversight committee and Board of Higher Education meetings, as required;
- > Monitoring and maintenance of the Plan's investment policy statement;
- > Mutual fund searches and new investment options as required; and
- > Compliance support.

To provide a full service retainer to the Massachusetts Optional Retirement Program, we would propose a fee of **\$180,000** annually. We appreciate your consideration for this important assignment and look forward to participating in the next phase of your consultant search process.

Sincerely,



Rafik Ghazarian
Vice President

Commonwealth of Massachusetts

Department Of Higher Education

Request for Proposals from Qualified Firms to

Conduct Investment Fund Reviews

DHE-ORP-004

1. Solicitation

The Department of Higher Education (“DHE” or the “Department”) as Plan Administrator for the Massachusetts Optional Retirement Program (“ORP” or the “Plan”) seeks to enter into a contract with a qualified firm (Vendor) to conduct investment fund reviews of funds available under the Plan for the 2011 and 2012 Plan Years.

Purpose

The firm selected to fulfill this contract will provide guidance to the DHE in meeting its fiduciary responsibilities related to making certain funds available under the Plan.

To that purpose, the Vendor will:

- assess the appropriateness of each fund’s investment objectives and investment methodology for use in a plan like the ORP;
- provide a review and analysis of each fund’s mid and long term performance;
- provide a review and analysis of each fund’s fee structure; and
- provide a review and analysis of each fund’s manager and management company.

Term of Contract

The term of the contract will begin as soon as is practicable after the award is made and will end on June 30, 2013. The fund reviews will include the following periods:

- Second Quarter 2011

- Third Quarter 2011
- Fourth Quarter 2011
- Annual Review for the Plan Year ending December 31, 2011
- First Quarter 2012
- Second Quarter 2012
- Third Quarter 2012
- Fourth Quarter 2012
- Annual Review for the Plan Year ending 2012

Requirements for submission of proposals are included under Section 6.

A schedule of activities relating to this request for proposals is included in Section 6.

The Department completed a system for evaluating proposals prior to making this document available to the public.

2. Proposal Format

Provide your firm's responses to inquiries by inserting text directly in this document under each respective item. Your notes should include your firm's ability to meet a requirement as well as areas where your firm cannot meet a requirement.

Please begin the insertion of your text with "**RESPONSE:**" which will help distinguish your notes from the original content.

Exception: Your proposed cost must be provided as a separate document; not included in this document as a "Response".

Please also make note of any supporting documentation in your responses.

Where appropriate print, sign and attach any required state forms (see Section 6).

RFP Information Updates

Responses to questions relating to either the Plan or the RFP will be distributed by email to those firms that have either expressed an interest in submitting a proposal or have submitted a proposal under this solicitation.

Updates and other changes to this Request for Proposals will be provided on the Comm-PASS system.

3. About the Optional Retirement Program

The Optional Retirement Program is a non-trusted money purchase plan operating under Internal Revenue Code (IRC) Section 401(a).

The Commonwealth of Massachusetts is the Employer and Plan Sponsor.

The Plan is governed by Chapter 15A Section 40 of the Massachusetts General Laws as Amended (MGLA). The enabling legislation was signed into law on January 4, 1994 and the Plan became effective on October 30, 1995.

Plan Contributions are directed to fully allocated and **self-directed** insurance products and mutual fund accounts that satisfy the requirements of IRC Section 401(f). Four "ORP Providers" offer these accounts: Lincoln Financial Group, Fidelity Investments, TIAA-CREF, and VALIC. The Providers invest plan assets and provide services to Participants and the Plan Sponsor. Current plan assets total approximately \$440M.

The Plan was restated as of July 1, 2010. The Commonwealth is currently soliciting a Letter of Determination from the Internal Revenue Service for the Plan in its current form. The Service issued a favorable Letter of Determination for the Plan in 2007.

Part 610 of the Code of Massachusetts Regulations (Section 11.00), which describes the Plan's operation, was authorized by the legislature in 1996. The content of this Part is currently being revised to reflect changes to the Plan; new administrative procedures, policies and governing statutes.

The Commonwealth operates the Plan as a governmental plan, and does not voluntarily comply with the Employee Retirement Income Security Act (ERISA). However, the Plan follows MGLA ch 32 Section 23 in defining the Commonwealth's fiduciary responsibilities. MGLA ch. 32 Section 23 is (essentially) ERISA's "Prudent Person Rule".

The Plan Year is January 1 through December 31.

The Commonwealth's Fiscal Year ends June 30.

A copy of the Plan Document is available upon request.

Additional information about the Plan is available on the ORP web pages. The URL is www.mass.edu/orpsplit.asp.

4. Provider Products and Funds

Lincoln Financial Group

Lincoln Financial Group (LFG) maintains two products under the Plan:

1. MultiFund Annuity (fixed and variable annuities)
 - No. Fixed Annuity: 1
 - No. Separate Accounts: 48
2. Lincoln Alliance (mutual fund platform with a fixed annuity)
 - No. Fixed Annuity: 1
 - No. Mutual Funds (including Target Date line up): 23

Lincoln Total Funds: 73

Fidelity Investments

Fidelity offers a line-up of proprietary and non-proprietary funds.

- No. Mutual Funds (including Target Date line up): 30

Fidelity Total Funds: 30

TIAA-CREF

TIAA-CREF maintains two products under the Plan. Some funds are available in both products:

1. Group Retirement Annuity (fixed and variable annuities, and proprietary mutual funds)
 - No. Fixed Annuity: 1 (shared with the RC product)
 - No. Separate Accounts: 9 (shared with the RC product)
 - No. Mutual Funds (including Target Date line up): 18
 - 13 funds shared with the RC product
 - 5 proprietary funds unique to the GRA product

2. Retirement Choice – “RC” (fixed and variable annuities, mutual funds)

- No. Fixed Annuity: 1 (shared with the GRA product)
- No. Separate Accounts: 9 (shared with the GRA product)
- No. Mutual Funds (including Target Date line up): 18
 - 13 funds shared with the GRA product
 - 5 non-proprietary funds unique to the RC product

TIAA-CREF Total Funds: 33

VALIC

VALIC maintains two products under the Plan:

1. Portfolio Director II (fixed and variable annuities)

- No. Fixed Annuity: 2
- No. Separate Accounts: 58

2. RSVP (non-proprietary mutual funds and fixed annuity)

- No. Fixed Annuity: 1
- No. Mutual Funds (including Target Date line up): 24

Total VALIC Funds: 85

TOTAL PLAN FUNDS: 221

5. Specifications for Minimum Requirements

Use this section to indicate your firm’s ability to meet each requirement.

Firms submitting a proposal in response to this Request, at a minimum must:

1. be properly and currently licensed to conduct such business in the Commonwealth:

- X Company is currently licensed;
- Company is *not* currently licensed.

3. complete and submit all of the forms required under this Request:

 X Yes, all required forms have been completed.

 No, the firm has not complete all required forms.

If not all forms were completed, please identify the form(s) not submitted with a brief note about the company's reason for not completing the form below:

1. Form name and comments.....

2.

3.

6. Conditions of the Proposal Process

BIDDER RESPONSIBILITY

This RFP has been distributed electronically using the Comm-PASS system. It is the responsibility of every bidder to check Comm-PASS for any addenda or modifications to a solicitation for which they intend to respond. The Commonwealth of Massachusetts and its subdivisions accept no liability and will provide no accommodation to bidders who submit a response based upon an out-of-date solicitation document. Potential bidders are advised to check the "last update" note on the first page of this solicitation; ensuring that they have the most recent version.

Cost: All costs associated with responding to this RFP are the sole responsibility of the responding firm.

Proposal Submission

Bidders' Conference: Potential Vendors may attend a bidder's conference at **10:00 am on Thursday July 14, 2011** to ask specific questions related to this solicitation. The Conference will be held at the Department of Higher Education:

One Ashburton Place
Room 1401
Boston, MA 02108

Vendors are not required to attend, but are responsible for any information/clarifications given at this meeting. If any information is given which is contrary to the specifications given in this proposal document, an amendment to this document will be issued which may or may not change the proposal delivery date.

Bidders' Conference RSVP: Your RSVP should be made via email, using the Program's email box: *ORP@bhe.mass.edu*. The "subject" should be **"Fund RFP RSVP"**

You should include your company name and the names and titles of those attending.

Please indicate your firm's intention to attend the Bidders' Conference no later than **Tuesday July 12, 2011**.

Responses to questions raised during the Bidder's conference will be distributed to attendees via email not later than **Friday July 15, 2011**.

Routine Questions: Specific vendor questions regarding the RFP may be submitted in writing to the DHE via email to the Program's email box: *ORP@bhe.mass.edu*. The "subject" should be **"Fund RFP Question"**.

Responses to these questions will be distributed via email to any and all firms expressing interest in submitting a proposal, as soon as is practical after receiving the inquiry.

The DHE will not respond to any questions received after the deadline for submitting proposals.

Submission: In order to be considered for selection, firms must submit **four** (4) printed copies of a complete, written response and one copy of the document formatted in Microsoft Word ('97 to '03) on a CD to:

Mr. Stephen W. Lenhardt
Deputy Commissioner for Administration and Finance
Department of Higher Education
One Ashburton Place, Room 1401
Boston, MA 02108-1696

Proposed Cost: Your firm must provide its proposal of cost for this contract as a separate document, in a sealed envelope. Please also include your proposed cost as a separate Word file on the CD.

Submission Deadline

Proposals must be delivered to the address noted above **no later than 5:00 p.m. on Wednesday August 3, 2011**.

REQUIRED COMMONWEALTH DOCUMENTS

Affirmative Market Program Plan Form (Attachment III): This Form must be completed and returned as part of each firm's proposal

SAMPLE COMMONWEALTH DOCUMENTS

The following forms are attached to this Request for Proposals for informational purposes only and will be required at contract execution by those firms receiving an award.

Standard Contract Form & Instructions (Attachment IV)

Authorized Signatory Listing (Attachment V)

Commonwealth Terms and Conditions (Attachment VI)

Form W-9 (Attachment VII)

Authorization for Electronic Funds Transfer (Attachment VIII) use this URL to access the form on Operational Services Division web site :

http://www.mass.gov/?pageID=afmodulechunk&L=4&L0=Home&L1=Budget%2c+Taxes+%26+Procurement&L2=Procurement+Information+%26+Resources&L3=Conduct+a+Procurement&sid=Eoaf&b=terminalcontent&f=osd_all_forms&csid=Eoaf

Select "Authorization for Electronic Funds Transfer" link from the right-hand column of forms ("Other Forms/RFR Attachments (Generally Mandatory)")

BIDDER MODIFICATION

The bidder may not alter the RFP or its components except for those portions intended to collect the bidder's response. Modifications to the body of the RFP, specifications, terms and conditions, or any other documents that would change the intent of this RFP are prohibited. Any modifications other than where the bidder is prompted for a response will disqualify the response.

SELECTION PROCEDURE AND EVALUATION CRITERIA

All proposals will be reviewed by the Evaluation Team based on information contained in the Firm's proposal. Proposals will be read and ranked by the Evaluation Team based upon the applicability of the Firm's experience, ability to meet the minimum requirements; the suitability of their services, and cost for their services, as evidenced by the responses provided by the Firm

to the RFP. The Evaluation Team may choose to invite selected firms to make oral presentations. Qualitative assessments of firms may be made during oral presentations.

Although cost is a factor in the award decision, final selection will not necessarily be made to the firm offering their product and services for the lowest cost.

The Department of Higher Education will make its final selection on or about **Tuesday August 23, 2011.**

The effective date of the contracts will be a date agreed upon by the successful firms and the Department, as soon as practicable following selection, but not later than **Wednesday August 31, 2011.**

Contract: After reviewing the responses to this RFP, the Department of Higher Education will select the firm that it considers most qualified. The Department of Higher Education will negotiate and award a contract to that firm. The contract document will incorporate by reference all the requirements, terms and conditions of this solicitation and the firms' responses as negotiated.

In the event the Department of Higher Education fails to negotiate a contract with the firm initially selected for this award, the Commonwealth reserves the right to either offer the contract to another firm that has submitted a proposal, or close the solicitation and publish a new Request for Proposals.

With the agreement of the selected firm, the Department of Higher Education reserves the right to amend the contract if it is deemed to be in the best interest of the Plan, its participants and beneficiaries, and it advances the goals and objectives set forth in the contract.

The Department of Higher Education may cancel this Request for Proposals (RFP) or reject RFP responses at any time prior to an award, and is not required to furnish a statement of explanation for why a particular response was not deemed to be the most advantageous. The Department of Higher Education may accept RFP responses in whole or in part.

The Department of Higher Education reserves the right to use any and all ideas included in any response without incurring any obligations to the responding firm or committing to procurement of the proposed services. Responses become the property of the Department of Higher Education.

THE DEPARTMENT OF HIGHER EDUCATION RESERVES THE RIGHT TO REJECT ANY AND ALL RESPONSES AND THE RIGHT TO CANCEL THIS REQUEST FOR QUALIFIED PROPOSALS AT ANY TIME PRIOR TO AWARDING ANY CONTRACTS.

7. Services to be Provided

The Vendor will provide the following services at the end of each calendar year quarter.

Individual Fund Assessments

After the close of each quarter, the Vendor will provide a report to the DHE for each fund that includes these assessments for each fund:

- the continued appropriateness of each fund's investment objective and investment methodology for use under a participant-directed defined contribution retirement plan;
- the reasonableness of each fund's **mid and long term**, investment performance and risk characteristics relative to:
 - Morningstar peer groups;
 - risk characteristics of other funds in its asset class;
 - appropriate benchmarks;
- the reasonableness of the fund's expense and fee structures relative to other funds in its asset class and/or peer group;
- the potential impact on a fund's viability of fund management firm and/or personnel changes, industry trends and federal or state regulatory changes;
- identify any funds that merit either placement on or removal from a Watch List, reflecting the Vendor's judgment of cumulative information reported above;
- identifying any funds whose characteristics fail to such a degree that the Vendor would recommend immediate action by the Commonwealth to remove such funds from the Plan;
- identify funds that exhibit particular strength in the criteria noted above; meriting special recognition.

Annual Reviews

After the close of each Plan Year (Dec. 31), the Vendor will provide an annual review of the Plan's funds. The annual review will entail the following aspects:

- completion of the fourth quarter's individual fund reviews;
- preparation for in-depth discussions with each of the four Providers concerning:

- characteristics of individual funds that have either improved or deteriorated during the year;
- appropriateness of the addition and/or replacement of funds in each Provider's respective line-up under the Plan; and
- appropriateness of re-negotiating individual fund expenses and fees.

On-site Meetings

The Vendor will present each of its quarterly reports to the DHE; providing a review of the quarter's results and any special issues that the Vendor identifies as pertinent to the Plan.

The Vendor will present its annual reviews to the DHE and attend the annual review with each of the four Providers.

The Vendor must be available to attend meetings of the Plan's oversight committee and Board of Higher Education meetings throughout the year as warranted by either the results of their reviews or request by the DHE.

Ad hoc Access

The Vendor should be willing to address issues raised by the DHE, *ad hoc*, during the course of the contract.

Data Source

Generally, the data required for these exercises will be provided by the DHE. To the extent the Vendor solicits data directly from the Providers, such data will be considered property of the Department and must be delivered to the DHE prior to the end of the contract term.

Confirmation

1. The firm will complete the required quarterly reviews: X Yes No
2. The firm will complete the required annual reviews: X Yes No
3. The firm will make the required visits to the DHE: X Yes No

Comments

Please provide any comments on the firm's ability and/or willingness to provide the services required under this section:

RESPONSE:

Segal Advisors is prepared to offer all of the services as listed above in your RFP.

8. About the Firm Submitting the Proposal

A. What is the name of the firm?

RESPONSE:

Segal Advisors, Inc.

B. How is this firm organized (*e.g.* corporation; LLP; etc)?

RESPONSE:

Segal Advisors, Inc. is a corporation that is incorporated in the State of New York.

C. Is the firm privately owned? If not, describe its ownership. If the firm is a subsidiary of another company, then name the parent company and its ownership structure.

RESPONSE:

Segal Advisors, a wholly-owned subsidiary of The Segal Group, was established in 1969 by the firm's parent when the company saw a need to provide independent and unbiased investment consulting advice. Segal, founded in 1939 by Martin E. Segal, is an independent, privately held consulting firm. It has been employee-owned by its officers since 1978. An 11-member Board of Directors sets policy and governs the organization. Implementation of policies, development of strategies and day-to-day operations are the responsibilities of the Chief Executive Officer. Segal is organized to provide services to three major markets: Public Sector, Corporate and Multiemployer.

The Segal Group is a privately held corporation, owned entirely by its active senior employees, including employees of Segal Advisors. There have been no changes to the ownership structure of Segal Advisors nor are any expected in the near future.

The firm's parent company, The Segal Company is comprised of consultants and actuaries providing services to all types of employee benefit plans from 19 offices throughout the United States and Canada. In 2001, The Segal Group acquired Marjorie Gross & Company (MGC), a New York-based firm specializing in employee communications. Early in 2002, The Segal Group acquired Sibson Consulting, a human resources consulting firm dedicated to helping companies improve the return on human capital through talent strategies, effective organization practices, change management, rewards and compensation design, work/life programs and other

solutions that help enhance employee performance. In 2006, The Segal Group acquired Irwin Tepper Associates, Inc., a consulting firm that specializes in asset/liability analysis for employee benefit programs and other organizations. Irwin Tepper Associates has been integrated into Segal Advisors.



Management of the company is led by the President and Chief Executive Officer and a Senior Management Team comprised of regional directors, market directors and practice representatives. These individuals participate in all strategy and policy issues to ensure that the services offered by The Segal Company are aligned with both the firm's mission and the firm's ability to compete.

D. Provide the location of the firm's main office.

RESPONSE:

Main Office: 333 West 34th Street, 3rd Floor
New York, NY 10001-2402
212.251.5000 (t)
www.segalco.com

Local Office: 116 Huntington Avenue, 8th Floor
Boston, MA 02116
617.424.7300 (t)
617.424.7390 [f]
www.segaladvisors.com

E. How long has your firm been engaged in the institutional investment consulting business?

RESPONSE:

Segal Advisors was established in 1969 by the firm's parent when the company saw a need to provide independent and unbiased investment consulting advice.

F. Document their experience in conducting investment fund reviews for defined contribution retirement plans by reporting the number of such projects completed by the Vendor below:

RESPONSE:

Investment fund reviews are included as part of our full service agreement with our defined contribution clients. We currently provide ongoing monitoring services to over 25 public sector clients with over \$12.5 billion in plan assets and 365,000 plan participants.

G. What professional liability insurance coverage or bonds are maintained by your firm for errors, omissions, or any other acts committed by your firm or its employees?

RESPONSE:

Segal Advisors is insured by Chubb (Federal, Great Northern Ins. and Vigilant) in the amount of \$2,000,000 for General Liability, \$1,000,000 for Auto and in most cases we can meet the Statutory limits for Workers' Compensation. In addition, Segal Advisors maintains Professional Liability/Errors and Omissions insurance through XL Insurance in the amount of \$5,000,000. Since we do not handle client assets, we do not maintain Fidelity Bond or Fiduciary coverage.

H. What percentage of the business' activities is attributable to reviewing defined contribution retirement plans? _____%

RESPONSE:

35%.

I. Is there pending litigation against your firm, other than routine claims matters? If so, provide details of each case.

RESPONSE:

No.

9. Company Personnel

A. Identify the primary contact at the firm responsible for responding to inquiries about the firm's proposal:

Contact Name:

Contact Title:

Contact Telephone No.:

Contact Email Address:

Contact Mailing Address:

RESPONSE:

Mr. Rafik Ghazarian
Vice President
(617) 424-7358
rghazarian@segaladvisors.com
116 Huntington Avenue, 8th Floor
Boston, MA 02116

B. Provide a brief professional biography of the individuals at the firm who would be in primary contact with the Plan Administrator should the firm be awarded this contract. At a minimum, provide the following information about each person:

Name:

Title:

Location (city and state):

Education:

Length of experience in the retirement plan consulting industry:

Length of time with the firm:

Brief statement of their responsibilities:

RESPONSE:

Rafik Ghazarian, Vice President, Boston, Massachusetts

Mr. Ghazarian is a Vice President in Segal Advisors' Boston office and has over 15 years of investment consulting experience. He consults to defined benefit, defined contribution and other types of investment program clients on the development of investment strategies, the selection of investment managers and the measurement and evaluation of investment performance. Mr.

Ghazarian serves as lead consultant to several multiemployer, public and endowment plan sponsor clients.

Prior to joining Segal Advisors, Mr. Ghazarian was a Project Manager for a major design and construction firm.

Mr. Ghazarian graduated from the University of Massachusetts with a BS in Mathematics and Computer Science. He received an MS in Finance from Boston College, Carroll Graduate School of Management.

Lawrence H. Marino, CFA, Senior Vice President, Boston, Massachusetts

Mr. Marino is Senior Vice President in the Boston Office and has over 18 years of investment consulting experience for all types of employee benefit plans, including Taft-Hartley, corporate and public sectors. In addition to overseeing Segal Advisors' Boston office, he serves as lead consultant to several major multiemployer and public plan sponsor clients. In his role as investment consultant, he provides expertise in the development of investment strategies, the selection of investment managers and the measurement and evaluation of investment performance.

Prior to joining Segal Advisors, Mr. Marino was an asset management consultant with a well-known brokerage firm. He was the comptroller for the City of Newton and a member of the Newton Retirement Board for 18 years, the last four of which he served as Chairman.

Mr. Marino graduated from Boston College and received his MBA from Boston University. He has taught finance and accounting courses at Suffolk University, Boston University and Boston College. Mr. Marino was awarded the designation of Chartered Financial Analyst in November 1996. He also served in the United States Army from 1967 to 1969, which included a tour of duty in Vietnam.

Ross Vaillancourt, Associate, Boston, Massachusetts

Mr. Vaillancourt is an Associate in Segal Advisors' Boston office. His current job responsibilities include ensuring that monthly data is gathered from each custodian bank in a timely fashion, calculating portfolio returns and verifying the returns with investment managers, producing monthly flash reports, and generating timely client performance reports each quarter. In addition to his role as an Associate, Mr. Vaillancourt is also a member of Segal Advisors' Research team.

Prior to joining Segal Advisors, Mr. Vaillancourt served as a Performance Analyst for State Street Global Advisors, where he calculated the performance attribution for fixed income portfolios and generated portfolio results for management review and client communications. He also served as a Fund Accountant for JP Morgan Chase, where he was responsible for all fixed income security transactions and for the completion of monthly fund pre-audits in compliance with industry standards.

Mr. Vaillancourt received a BA in Business Administration with a concentration in Finance from Seattle Pacific University (Seattle, WA).

This team is supported by nationally recognized DC experts, as well as other consultants and Segal Advisors' Research Group.

10. Client References

Provide at least two current client references for the firm's institutional investment consulting business. The first reference should be for the client most recently engaged by the firm; the second for the client with which the Vendor has maintained its longest relationship.

RESPONSE:

Reference 1

Name: Brenda P. Mathis

Title: Program Director

Organization: DC College Savings Plan 401(a) & 457 Pension Plans

Mailing Address: Office of Finance & Treasury, 1101 4th Street SW, Suite 800, West Bldg, Washington, DC 20024

Email Address: Brenda.Mathis@dc.gov

Telephone No.: (202) 727-0780

Date the firm was engaged by this client: October 2009

Is this an ongoing relationship or a one-time project: Ongoing

Brief Description of the work completed for this client: Full service investment consulting

Reference 2

Name: Dale Rhodes

Title: Director of Finance

Organization: State of South Carolina 401(k) and 457 Deferred Compensation Plans

Mailing Address: 202 Arbor Lake Drive

Email Address: dale.rhodes@sclot.com

Telephone No.: (803) 754-7997

Date the firm was engaged by this client: November 2003

Is this an ongoing relationship or a one-time project: Ongoing

Brief Description of the work completed for this client: Full service investment consulting

11. Methodology & Resources

A. Describe the methodology your firm would utilize to conduct these fund assessments and provide the annual reviews.

RESPONSE:

Our investment consulting approach employs an insightful, comprehensive, and proven methodology. The following lists the major tasks included and methodology employed in our analysis of your Plan.

Historical Investment Performance

We will prepare a report that analyzes the historical investment performance of the Plan relative to its existing investment guidelines. The report will include a review of the performance of the Total Plan as well as each asset segment and investment manager vs. appropriate benchmarks and universes. This analysis will pinpoint the strengths and weaknesses of the existing investment program. We will also provide an analysis of the Plan's historic and current asset allocation targets and parameters.

Asset Allocation Study

We will review the Plan's current allocation in comparison to alternative portfolios with the goal of enhancing return while limiting or reducing the overall portfolio's risk exposure. The study will also include a brief review of the Plan's liability characteristics to ensure that Plan assets are suitably invested.

- Our asset allocation model is based on a forward-looking approach that employs stochastic modeling to allow the plan sponsor to assess the probabilities of various outcomes for each allocation scenario.
- Cash flow projections will be reviewed to highlight possible future liquidity concerns that should be reflected in the asset allocation strategy.
- Additional consideration will be given to the Plan's age demographics, actuarial assumption, and funded status.

Review of the Current Investment Structure

We will make recommendations regarding the existing investment structure and viable alternatives, if necessary. We will focus on the advantages and disadvantages of each alternative.

- If an alternative approach is warranted, we will develop a systematic strategy to move the portfolio to the desired structure over time.
- We focus on fee-efficient structures that have a high probability of achieving the Plan's objectives.

Investment Manager/Custodian Selection

Once we determine the preferred investment structure, we will use quantitative and qualitative analysis to find the appropriate investment manager(s) to implement it. The steps in this process will include:

- Identifying the objectives of the Plan
- Assessing managers' capabilities
- Coordinating manager interviews
- Differentiating each candidate
- Assistance in fee negotiations

Should the plan sponsor wish to hire a custodian, or replace an existing one, we would follow a similar methodology to identify the appropriate provider of custody services.

Investment Policy Development

We will develop a comprehensive, Investment Policy (or revise the existing one). This document will clearly identify the Plan's and each investment manager's specific goals and objectives and, therefore, will provide a benchmark against which ongoing performance will be measured.

Ongoing Reporting and Performance Monitoring

After the initial processes of asset allocation and policy development, manager selection, and implementation are completed, we will prepare quarterly reports and discuss the results with the client on an ongoing basis. Reports focus on performance results, risk assessment and asset deployment. In addition, the reporting process addresses:

- Investment performance, which is calculated independently using monthly custody bank asset and transaction statements
- Return discrepancies that are reconciled with each manager and the custodian
- Compliance measurement with investment policy and objectives
- Proactive recommendations as necessary to achieve long-term goals

General Consulting

On an ongoing basis, we are readily available to answer questions and respond to investment related issues that may arise such as:

- Changes in investment policy and/or structure due to changes in the marketplace
- Personnel/Organizational changes within investment management firms
- Rebalancing of assets to maintain target allocations
- Plan sponsor education

B. What would you use as a source of information about the funds (*e.g.* the DHE; directly from the Provider; independent source)?

RESPONSE:

Segal Advisors utilizes several databases for evaluating investment manager performance, including Investment Metrics, LLC., eVestment Alliance, Morningstar, and other public sources. Through various databases, Segal Advisors has access to information on more than 2,000 investment managers, with thousands of investment products. Returns in our universe rankings for quarterly monitoring are composite returns provided by investment managers to third party database managers.

C. Would you contact the Provider directly with questions about a fund, data, fee structure etc? Would you contact the DHE? The fund management company?

RESPONSE:

Segal Advisors has experience working with the current providers on the Plan. Our research group will also interact with the various fund management companies to conduct due diligence on the Plan's investment options.

D. Please provide a sample of your quarterly report to the DHE and a sample of the information you would prepare for each Provider's annual review.

RESPONSE:

Our ongoing monitoring services and reports are designed to address the need for and provide evidence of the Massachusetts Optional Retirement Program's efforts to comply with their fiduciary responsibilities. This objective is achieved through our reporting capabilities, which include the following:

- Provide an overview of economic and general market conditions over the relevant time periods;
- Compare each investment option's results to appropriate market indices and universes of similarly managed vehicles;
- Verify investment style of each option;
- Measure the risk characteristics of each investment option;
- Historical performance with a focus on consistency;
- Morningstar ratings;
- Comment on manager tenure;

- Monitor fund expense ratios and eligibility for lower share class opportunities;
- Monitor fund companies involved in SEC investigations;
- Popularity of funds among participants;
- Review expenses and returns of each fund options;
- Analyze the extent to which investment policies have been carried out and how they have affected the actual results; and
- Recommend alternatives for dealing with any of the issues noted above.

Actual investment returns relative to pre-established benchmarks are obviously important. Additionally, the level of risk associated with achieving results is equally important. In summary, the following factors are critical in reporting performance reviews for mutual funds:

- 3 and 5 year Sharpe Ratio
- 3 and 5 year Absolute Return
- Consistency vs. Benchmark
- Consistency vs. Universe
- Expense Ratios

We have included a sample performance report as an exhibit to this proposal.

E. Provide other comments about your firm's methodology and analytical resources that are pertinent to this solicitation.

RESPONSE:

DC-Connect® consulting services are provided through Segal Advisors. DC-Connect's services focus solely on assisting Plan Sponsors achieve the most effective service configurations and plan structure. Additionally, DC-Connect offers vendor searches/evaluations, which thoroughly incorporate the process of fully evaluating the services of providers in the defined contribution industry. A key component of this service consists of negotiations to obtain the most favorable fee structure available for a given service configuration. As part of our services we assist plan sponsors in the plan implementation and transition process to the new service provider(s).

The term "DC-Connect" was chosen to convey the fact that the success of any defined contribution plan requires an effective connection between the vendors' investment offerings, participant communication materials and ongoing recordkeeping capabilities.

Segal is one of the only consulting firms to have a dedicated team of experienced defined contribution professionals with extensive knowledge in the area of fee and contract negotiations, plan design, compliance, RFP development, vendor evaluation/analysis and plan implementation. We have successfully integrated our administrative experience into our investment advisory practice. This has enabled us to design effective programs for our clients that coordinate all of the required deferred compensation services such as recordkeeping/administration and communication/education.

We believe that it is relevant and important to note that The Segal Company has provided Compliance Services to the Commonwealth of Massachusetts Optional Retirement Program (ORP). The Segal Company has completed “Crosscheck” operational reviews, a draft Summary Plan Description of the ORP, and policies and procedures for Domestic Relations Orders. Segal has also worked closely with the DHE staff to restate the Plan for the ORP, and prepare draft forms and letters for the submission of the ORP plan to the Internal Revenue Service for a Letter of Determination.

12. Special Requirements

Describe any special requirements your firm would need to fulfill this contract (*e.g.* third party authorizations to access data).

RESPONSE:

Not applicable.

13. Proposed Cost

Provide your firm’s best estimate of the cost and time required to fulfill the contract as described in this Request for Proposals. While the Department of Higher Education would prefer a flat fee for this contract, firms may propose hourly rates. If you propose an hourly rate, you must also provide an estimate of the hours required to complete each component of the project (*e.g.* each quarterly report; annual reviews).

Proposal Format: Your firm must provide its proposal of cost for this contract as a separate document, in a sealed envelope. Please also include your proposed cost as a separate Word file on the CD.

14. Inconsistencies

Please identify and describe any aspects of the Request for Proposals with which the firm’s proposal does not conform.

RESPONSE:

Not applicable.



Supplier Diversity Program (SDP) Plan Form

Contract/RFR Document Number: DHE-ORP-004

Instructions: Completing all parts of this form is mandatory. Please read instructions in the SDP section of the solicitation. **Complete one form for each Supplier Diversity Office (SDO) Certified M/WBE Partner Business.**

For a complete list of certified vendors please go to <http://www.somwba.state.ma.us/BusinessDirectory/BusinessDirectory.aspx>.

Part I Bidder/Contractor Information

[Help with Part I](#)

Business Name: Segal Advisors

Full Address: number, street, and apt. or suite no., city, state, zip 116 Huntington Ave. 8th Floor, Boston, MA 02116

Contact Name: Rafik Ghazarian

Phone # (617) 424 - 7358

Email address:

rgghazarian@segaladvisors.com

Check one of the following if applicable:

☐ MBE ☐ WBE ☐ M/WBE ☐ M/W Non-Profit

If not yet certified, check here if you have applied for Certification: ☐

Certification Expiration Date If Applicable (copy of the SDO certification letter must be attached):

Part II SDP Partner (Cannot be the same company as the Bidder/Contractor or an affiliate)

[Help with Part II](#)

M/WBE Business Name:

Full Address: number, street, and apt. or suite no., city, state, zip

Contact Name:

Phone # () - x

Email address:

Check one of the following if applicable:

☐ MBE ☐ WBE ☐ M/WBE ☐ M/W Non-Profit

If not yet certified, check here if your partner has applied for Certification: ☐

Certification Expiration Date If Applicable (copy of the SDO certification letter must be attached):

Part III Description of Business Relationship

[Help with Part III](#)

Check a minimum of one of these options that best describe the business relationship between Bidder/Contractor and SDP Partner:

- ☐ **Subcontract:** include a copy of the written agreement between the Bidder and Subcontractor.
- ☐ **Ancillary:** include a copy of the written agreement between the Bidder and Ancillary Partner.
- ☐ **Growth & Development:** enclose plan for education, training, sponsorship, mentoring, resource sharing, and/or other initiatives.

Briefly describe the products and/or services the SDP Partner will provide your business:

Part IV Financial Commitment

[Help with Part IV](#)

Provide information on the committed amount (as a percentage of Bidder/Contractor gross revenue derived from this contract or as an exact dollar figure) to be spent with the certified SDP Partner as part of this relationship.

Annual Amount or Percentage	or separately for each contract year	Year 1 Amount or Percentage	Year 2 Amount or Percentage	Year 3 Amount or Percentage	Year 4 Amount or Percentage	Year 5 Amount or Percentage

Part V Past Performance

[Help with Part V](#)

Have you had past relationships/spending with this SDP partner ☐ Yes ☐ No

If yes, please provide total spending in previous two years \$.

Sign Here: **Print Name ►** Rafik Ghazarian **Title ►** Vice President
Authorized Signature ►  **Date ►** 8/2/2011



Supplier Diversity Program (SDP) Plan Form Instructions

Part I

Bidder/Contractor Information: Business name, full address, contact name, phone #, email address and your SDO certification status, if you have one, i.e. if you are SDO certified, please put in the expiration date of your certification. Please be aware you will not receive additional points based on your certification status. Submit a copy of your SDO certification, if applicable.

Part II

SDP Partner must be a Women Owned (WBE), Minority Owned (MBE) or Minority and Woman Owned (M/WBE) Business Enterprise or Woman Nonprofit (WNP) or Minority Nonprofit (MNP) certified by the State Office of Minority and Women Business Assistance (SOWMBA). You must include the partner's business name, full address, contact name, phone #, email address and SDO certification status. You must also submit a copy of the partner's SDO certification or check the applicable box stating that they have applied for Certification. For a complete list of SDO certified vendors please visit their website at www.mass.gov/SDO. Please note that if you are a SDO certified vendor you cannot put yourself as the SDP partner or an affiliate but will be required to partner with another SDO certified business. SDO certified vendors responding to Requests for Response (RFR) are not exempt from this requirement.

Part III

Description of Business Relationship: In this section the prime Bidder/Contractor must provide a description of the business relationship with the SDP Partner. Please refer to the SDP section of the solicitation (RFR) to determine if any of these options are required in your response and to determine how many options you can use for your SDP plan. For example, unless the RFR requires otherwise, you can select Subcontracting and Growth and Development or you can select Ancillary Services and Growth and Development. However, you must select at least one business relationship and provide a description of the services rendered.

- 1) Subcontracting: submit SDP Plan form, a partnership agreement and SDP partner's certification.
- 2) Ancillary: submit SDP Plan form, a partnership agreement (if available) and SDP partner's certification.
- 3) Growth and Development: submit SDP Plan form, growth and development plan (please use a separate sheet) and SDP partner's certification.

Definitions and examples of the three components can be found at:

<http://www.mass.gov/Eoaf/docs/osd/sdo/sdp/subcontracting.doc>

The Supplier Diversity Program offers training on the SDP Plan requirements. The dates of upcoming trainings are located on the SDP website at www.mass.gov/SDP.

Part IV

Financial Commitment: provide the minimum amount you will spend with the SDP partners as a percentage of the gross revenue derived from the contract or an exact dollar amount. If you select the same percentage or dollar amount for each contract year, please input this information in the Annual Amount or Percentage field(s). If the committed amount is different each contract year, input the percentage or dollar amount in the field that corresponds with the appropriate contract year.

Part V Past Performance: Historical spending with the SDP partner. If you have a previous relationship with this partner provide the total for the past two years

Resources available to assist Prime Bidders in finding potential M/WBE partners can be found at:

<http://www.mass.gov/Eoaf/docs/osd/sdo/sdp/20guidance.doc>

American Funds EuroPacific Gr R4

Segal Score

A

Ticker: REREX
Min. Invest: 0.00

Category: Foreign Large Blend
Benchmark: MSCI EAFE NR USD

Subcategory: Foreign Giant
Inception Date: 06/07/2002

Portfolio Characteristics	
% Non-US Stocks:	91.45
Geo Avg Market Cap \$MM:	37,460
Total Assets \$MM:	10,059.47

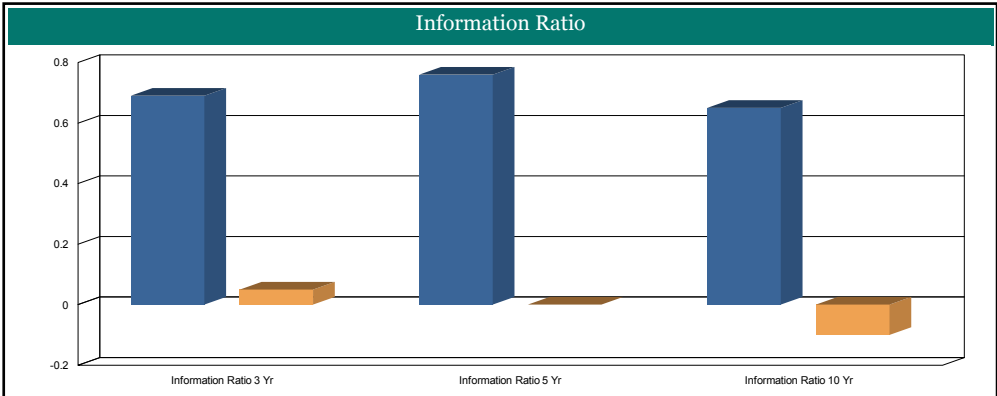
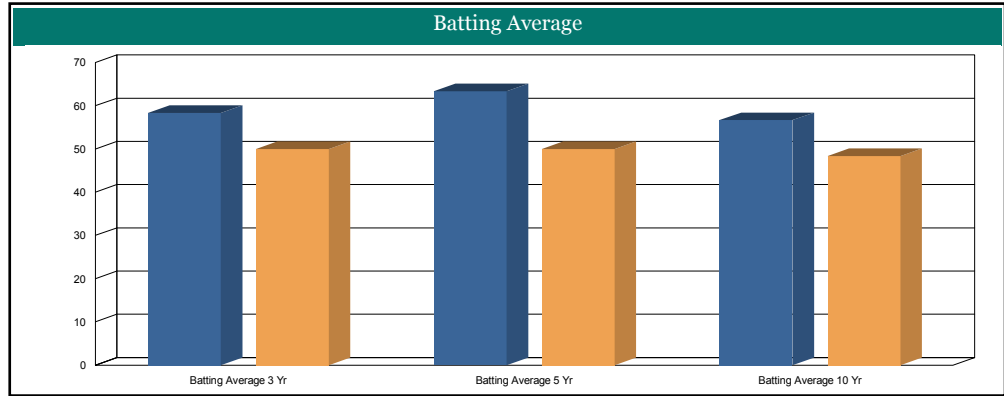
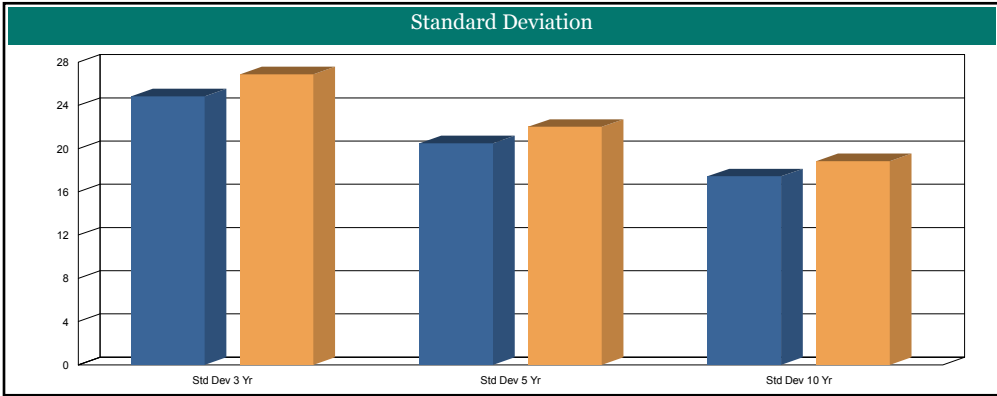
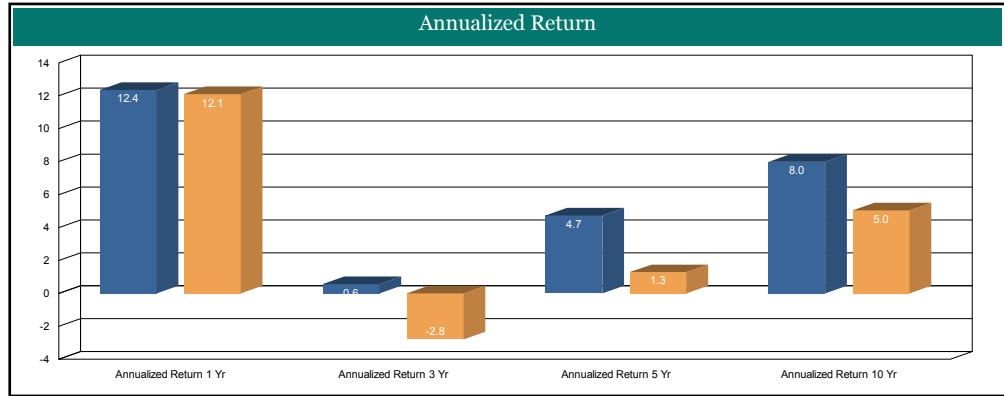
Organization	
Manager Tenure:	27.00

Fees	
Expense Ratio:	0.86

Actual	Median
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Returns/Performance			
	Actual	Benchmark	Median
YTD Retun:	3.47	3.36	3.05
Annual Return 2010:	9.39	7.75	10.15
Annual Return 2009:	39.13	31.78	30.85
Annual Return 2008:	-40.56	-43.38	-43.85
Annual Return 2007:	18.87	11.17	12.63
Annual Return 2006:	21.83	26.34	24.81
Annual Return 2005:	21.05	13.54	14.54
Annual Return 2004:	19.63	20.25	17.74
Annual Return 2003:	32.88	38.59	33.87
Annual Return 2002:	-13.72	-15.94	-15.95
Annual Return 2001:	-12.18	-21.44	-20.15

Risk		
	Actual	Median
Batting Average 3 Yr:	58.33	50.00
Batting Average 5 Yr:	63.33	50.00
Batting Average 10 Yr:	56.67	48.33
Std Dev 3 Yr:	24.85	26.88
Std Dev 5 Yr:	20.49	22.02
Std Dev 10 Yr:	17.44	18.85
Downside Capture 3 Yr:	89.85	103.17
Downside Capture 5 Yr:	89.17	103.32
Downside Capture 10 Yr:	90.18	102.92
Information Ratio 3 Yr:	0.69	0.05
Information Ratio 5 Yr:	0.76	0.00
Information Ratio 10 Yr:	0.65	-0.10



Vanguard Institutional Index Instl

Segal Score

B

Ticker: VINIX
Min. Invest: 5,000,000.00

Category: Large Blend
Benchmark: S&P 500 TR

Subcategory: S&P 500 Tracking
Inception Date: 07/31/1990

Portfolio Characteristics	
% US Stocks:	99.70
Geo Avg Market Cap \$MM:	48,111
Total Assets \$MM:	47,447.55

Organization	
Manager Tenure:	6.00

Fees	
Expense Ratio:	0.05

Actual	Median
--------	--------

Returns/Performance			
	Actual	Benchmark	Median
YTD Retun:	5.91	5.92	5.73
Annual Return 2010:	15.05	15.06	13.98
Annual Return 2009:	26.63	26.46	27.50
Annual Return 2008:	-36.95	-37.00	-37.44
Annual Return 2007:	5.47	5.49	5.74
Annual Return 2006:	15.78	15.79	14.80
Annual Return 2005:	4.91	4.91	6.05
Annual Return 2004:	10.86	10.88	10.74
Annual Return 2003:	28.66	28.68	28.20
Annual Return 2002:	-22.03	-22.10	-21.77
Annual Return 2001:	-11.93	-11.89	-11.13

Risk		
	Actual	Median
Batting Average 3 Yr:	55.56	47.22
Batting Average 5 Yr:	48.33	46.67
Batting Average 10 Yr:	43.33	49.17
Std Dev 3 Yr:	21.88	22.02
Std Dev 5 Yr:	17.86	18.10
Std Dev 10 Yr:	15.97	16.01
Downside Capture 3 Yr:	99.89	100.86
Downside Capture 5 Yr:	99.92	101.06
Downside Capture 10 Yr:	99.92	100.55
Information Ratio 3 Yr:	1.42	-0.12
Information Ratio 5 Yr:	0.80	-0.15
Information Ratio 10 Yr:	0.42	-0.04

