

**Response to RFP No. 10-08-514
Brazos River Authority
Retirement Plan Advisory Services**

August 2010

Prepared by:

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**Morgan Stanley
SmithBarney**



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Morgan Stanley
Smith Barney

August 20, 2010

Brazos River Authority
Administrative Services
4600 Cobbs Drive
Waco, TX 76710

RE: RFP #10-08-514 Retirement Plan Advisory Services

Dear Trustees:

Thank you for the opportunity to respond to your request for proposal for investment consulting services. To address the challenges presented to your board by the current environment we have assembled a team of four very seasoned and credentialed senior consultants with over 127 years of combined experience. We believe you will find our team's qualifications, the depth and breadth of our firm's resources and services, and the total proposed cost for all services included unequalled by our competitors.

In reviewing the material available to us for the proposal, one thing in particular stood out. We performed a preliminary cost analysis and, given the data we had access to, arrived at the following conclusion: you are currently paying as much as twenty-five percent more for the services you are receiving than you would with us. When engaged by your board, one of our first projects would be to perform a thorough fee analysis with access to all the cost data. Working in conjunction with your board, any cost savings realized would flow directly to the bottom line and enhance performance, all else equal.

The Consulting Group at Morgan Stanley Smith Barney and our team are dedicated to giving you premier, third-party investment solutions in a unbiased, unconflicted manner with complete cost transparency all delivered at a total price we can demonstrate to be most competitive. We look forward to the opportunity to discuss this further with you in person.

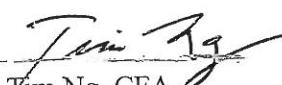
Sincerely,



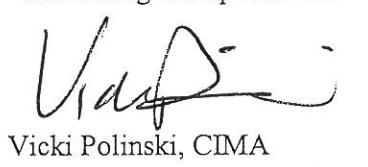
Tim Sharpe, CFA, CIMA
Senior Institutional Consultant



Norm Nabhan, CIMA
Consulting Group Director



Tim Ng, CFA
Consulting Group Analyst



Vicki Polinski, CIMA
Senior Investment Consultant

EVALUATION CRITERIA

A selection committee will review and evaluate the proposals submitted according to the following:

1. Summary of professional qualifications of staff that will be utilized by your firm for completing retirement plan advisory services including name, education, experience, and certifications.

Your Fund will be serviced by the Houston Team consisting of:

Tim Sharpe, Senior Institutional Consultant, has more than 29 years experience in the securities industry. He has a BS in electrical engineering from Rice University and an MBA from the University of Texas. He holds the titles of Chartered Financial Analyst (CFA), and CIMA (Certified Investment Management Analyst) from the Wharton School of Business. He has also earned the title of Accredited Investment Fiduciary, (AIF) and is a board member of APIC, the Association of Professional Investment Consultants where he chairs the Portfolio Construction Committee. Prior to joining Smith Barney Consulting Group in 2003, he worked as an investment consultant to public pension funds with another firm. Tim has been providing investment consulting services to public funds since 1999 including but not limited to development of investment policy, asset allocation, manager search, portfolio construction and performance measurement.

Norm Nabhan, Institutional Consulting Director, has more than thirty years of experience helping institutional investors design spending and investment policy, asset allocation strategies, select appropriate investment management firms and conduct regular rebalancing and portfolio reviews. Mr. Nabhan began his career in financial services as an Account Executive in 1973 in Chicago. He joined E. F. Hutton in 1977, in Chicago. He has served in numerous management positions with the Consulting Group including Director of Institutional and Portfolio Advisory Services. In 2004 he was National Director of Investment Consulting and was made a Managing Director of Citigroup. He holds the titles of CIMA (Certified Investment Management Analyst) from the Wharton School of Business and AIF (Accredited Investment Fiduciary). Norm is a graduate of Purdue University with a B. A. His professional associations include the Investment Management Consultants Association, where he served on the Board of Directors for eight years, and served two years as President. He has been conferred the title of Director Emeritus. He is currently Chairman of the Certification committee. He is on the Board of the

Association of Professional Investment Consultants (APIC), where he is the current President. He has served as a Director and National President of Sigma Phi Epsilon Fraternity. He served on the Alternative Investment Advisory Board for the Purdue University Endowment and is on the Advisory Board of the Center for Wealth and Philanthropy at Boston College. He has been a speaker at numerous industry and philanthropic conferences at the Indiana University Center of Philanthropy, Boston College, Johns Hopkins University Center for Non Profit Management, Arizona State University, the Michigan and Minnesota Councils of Foundations, as well as the Association of Small Foundations and NACUBO. He has also appeared on CNBC.

Victoria Polinski, Senior Investment Consultant has over 15 years of institutional consulting experience. She began her financial services career after graduating from the University of Memphis with a BBA in Finance. She earned her professional designation of Certified Investment Management Analyst (CIMA) through Wharton School at the University of Pennsylvania and the title of AIF. In 2002, she joined Citi/Smith Barney and in 2005 was recognized on a national level for her outstanding achievements and contributions to the firm by receiving the Consulting Group "Analyst of the Year" award. Vicki is also a member and serves on the Board of Directors of the Association for Professional Investment Consultants (APIC). Her background includes managing analytical departments responsible for investment policy, performance measurement, manager searches, asset allocation, asset/liability analysis and endowment spending analysis. Vicki currently serves on the Board of the Kelsey Research Foundation where she is chair of the finance committee.

Tim Ng, Consulting Group Analyst has more than 40 years of pension fund investment experience. Formerly, Tim was the CIO (chief investment officer) for eight years at the Houston Police Officers' Pension System. He started his investment career with Shell Oil Company retirement funds where he worked for 24 years as investment analyst and portfolio manager before retiring. Tim received his BBA and MBA in finance from Pace University. Tim is a Chartered Financial Analyst (CFA). He is very knowledgeable and experienced in the design of investment policy, asset allocation, manager search, and performance measurement.

Pamela Dunn, Registered Associate, has 29 years experience in the investment industry. She holds Series 7, 52, 63, & 66 professional licenses and has the primary responsibility on the team for day-to-

day operations such as receiving and wiring funds, carrying out rebalancing instructions, etc.

2. List and description of retirement plan advisory services projects recently completed by your firm. Include name of project, location of project, size of project, brief description of scope of work, and contact name and phone number of client reference for each project.

We provide a full range of the following investment consulting services to the ten clients listed in Question 12 of Professional Services Questionnaire:

- Investment policy development and review on an ongoing basis
- Asset allocation studies including alternative assets if desired
- Portfolio construction including open manager searches of third party managers
- Help in negotiating manager contracts with beneficial fee arrangements
- Ongoing manager research on all separate account managers
- Third party alternative investments including Exchanged Traded Funds (ETF) as deemed appropriate
- Quarterly performance reports
- Tactical allocation advice if appropriate
- Opportunistic allocation advice as appropriate
- Attendance at quarterly board meetings and at other times as needed by the fund
- Ongoing Trustee education
- Access to the Consulting Group trading desk for your managers. They can trade through these desks if they wish at zero cents per share. Bonds are traded without markup or markdowns. We would see that all managers agree to best execution language in their contracts.
- We will work with the majority of outside custodians or we will provide custodial services if you desire at no additional cost which would include on-line access to your accounts and monthly statements.

3. Ability to meet current and long-term workload and ability of staff to develop and meet schedules, milestone dates, and deadlines on an as needed basis.

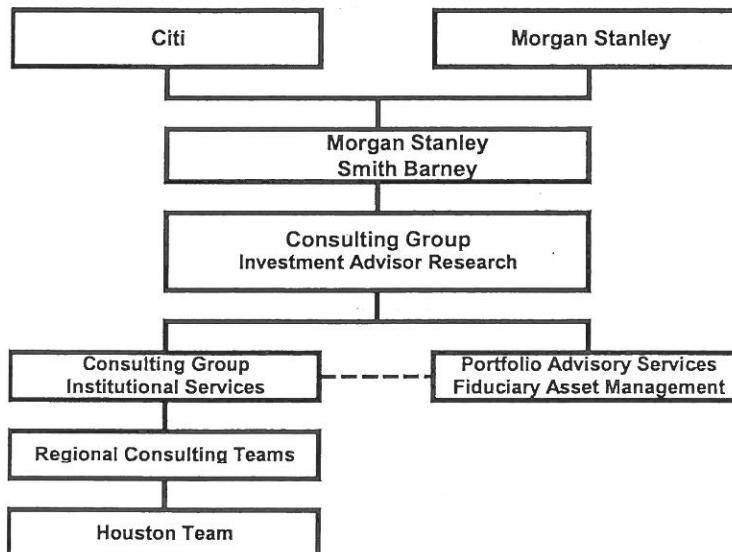
We regularly meet current and long-term schedules, milestones and deadlines as established with our consulting clients. Since the cost of our investment consulting services is asset-based, the fee we quote is inclusive of all consulting services included under our contract. If additional services outside the scope of this agreement were requested in the future, we would evaluate that request to see if 1) we can provide and 2) what the additional cost would be for

those services. It is possible that additional services would require an additional contract.

4. Person nominated by your firm to be the point of contact for work scope development, negotiations, and authorization for the five (5) year term agreement.

Tim Sharpe.

5. Provide an organizational chart of your firm and any sub-consultants, depicting specific individuals that will be utilized. Provide resumes for the associated team members.



Resumes are provided in the answer to question #1 above.

5. Summary of work program for the retirement plan advisory services.

When engaged by your board we will immediately begin to analyze the fund's current structure in light of the board's goals and objectives.

Week 1. Review the IPS, goals and objectives, constraints, controls and protections, etc. in conjunction with the board. Complete fee analysis.

Week 2. Review and evaluate with the board the fund's asset allocation.

Week 3. Review and evaluate the fund's portfolio construction with an eye toward inclusion of all appropriate asset classes and appropriate diversification.

Week 3. Custodial evaluation and manager evaluation, recommendation on terminations and new hires.

Weeks 4 and 5. Contract negotiations with service providers.

Week 6. Begin implementation of approved changes.

7. Demonstration that your firm and any sub-consultants of your firm can maintain insurance coverage as per insurance requirements in the General Information section of the RFP.

We maintain the following:

A. Financial Institutions Bond:

Morgan Stanley and all its subsidiaries maintain a Financial Institutions Bond, which insures Morgan Stanley and all its Subsidiaries for loss due to dishonest or fraudulent acts by employees; loss caused by forgery or alteration of securities electronic and computer crime and voice-initiated money transfers. Details are given below:

Name of Insurer:	St. Paul Mercury and others
Policy Number:	490PB2005
Extent of Cover:	USD 150 Million
Expiry Date:	1 September 2010

B. Investment Advisers Errors and Omissions Policy: (Professional Indemnity Insurance):

Morgan Stanley maintains an Advisers Errors and Omissions Policy, which insures Morgan Stanley and all its subsidiaries for claims by clients regarding actual or alleged breach of duty, negligence and errors and omissions while in the business as an investment adviser. Details are given below:

Name of Insurer:	Travelers Casualty & Surety Co. of America
Policy Number:	105218422
Extent of Cover:	USD 15 Million
Deductible:	USD 100,000
Expiry Date:	31 January 2011

8. Fee Schedule

Our all-inclusive fee for consulting services listed above would be forty basis points (40 bps or 0.40%) per annum subject to contract negotiations. Please note that this fee is inclusive of trading costs when executed through our trading desk without commission, markups or markdowns. This can be a very substantial expense reduction to your fund and the amount can only be determined by a thorough cost analysis. Our quoted fee also includes custody (optional) at no additional charge, another substantial cost reduction to your fund. We would like to perform a no-cost, no-obligation fee analysis for your fund and are confident our approach would save the fund substantial expenses.

Professional Services Questionnaire

To be Completed by All Firms

All questions must be answered and the data given must be clear and comprehensive. This statement must be notarized. If necessary, questions may be answered on separate attached sheets. The Firm may submit any additional information it desires.

1. Name of Individual/Firm

Consulting Group.

Consulting Group is a business of Morgan Stanley Smith Barney, LLC.

2. Permanent main office address

Corporate Headquarters:

Morgan Stanley Smith Barney, LLC

2000 Westchester Avenue

Purchase, NY 10577

Consulting Group:

Morgan Stanley Smith Barney, LLC

222 Delaware Avenue, 7th Floor

Wilmington, DE 19801

Houston Team:

Morgan Stanley Smith Barney, LLC

2800 Post Oak Blvd., Suite 1800

Houston, TX 77056

3. Date Organized

Consulting Group was organized in 1973. Morgan Stanley Smith Barney is a newly formed joint venture whose component firms have over 130 years of combined experience.

4. If a Corporation, where and when incorporated

The merger of Morgan Stanley and Smith Barney into a joint venture was announced on January 13, 2009 and they commenced business as a joint venture on June 1, 2009. The roots of the parent companies go back as far as the early 1900's and beyond.

5. Do you operate under an assumed name(s)? No. X Yes _____ If yes, please list:

6. How many years engaged in professional services under present firm or trade name? Give former names of firm or trade names, with dates of operation under each.

Consulting Group was founded at the firm of EF Hutton in 1973 which subsequently merged into Shearson and Co. and then into Smith Barney. Smith Barney, which was

owned by Citigroup formed a joint venture with Morgan Stanley On June 1st of 2009. Throughout all of those mergers, Consulting Group and its personnel have continued to operate intact.

For the principals who would serve your fund:

Tim Sharpe	29 years in the industry	7 years at this firm
Norman Nabhan	37 years in the industry	33 years at this firm
Tim Ng	43 years in the industry	5 years at this firm
Victoria Polinski	15 years in the industry	8 years at this firm

7. General character of work performed by your company.

Investment Consulting Services:

- a. Investment Policy Development
- b. Asset Allocation Advice
- c. Investment Manager Search and Review
- d. Ongoing Manager Research and Review
- e. Performance Analysis and Reporting

8. Have you ever defaulted or failed to complete any work/contract awarded to you within the past five years under your current company name or any other company name?

No X, Yes , If yes, where and why? Give name and telephone number of Client(s).

The Houston Team has never failed to complete assigned work/contracts.

9. Has your firm filed or been named in any litigation involving your firm and a Client(s) on a professional services project within the last five years under your current company name or any other company name?

No , Yes X, If yes, provide details of the issues and resolution if available. Include lawsuits with sub-consultants where Client(s) was involved.

The Houston Team that would service your account has not been named in any litigation involving the team and a client on a professional services project within the last five years.

Morgan Stanley Smith Barney LLC along with its Financial Advisors are named from time to time as defendants in various matters incidental to, and typical of, the businesses in which we engage. These include civil actions and arbitration proceedings in which Morgan Stanley Smith Barney LLC or its Financial Advisors have been named, arising in the normal course of business activities as a broker and dealer in securities, as an underwriter, as an investment banker or otherwise. Morgan Stanley Smith Barney also maintains regular and ongoing contact with the Securities and Exchange Commission, various state regulators, administrative agencies and self-regulatory organizations such as the National Association of Securities Dealers, Inc. (the "NASD") and the New York Stock Exchange ("NYSE"), and is often asked to provide information, documents or testimony in connection with investigations or proceedings conducted by those bodies.

Information disclosing certain legal and regulatory matters are made publicly available through the NASD website at www.nasd.com. Information can also be found in Part I of

Morgan Stanley Smith Barney's Form ADV that may be found on the SEC website at www.sec.gov.

10. A list and description of projects completed within the last five years under your current company name or any other company name provided services similar in cost and schedule to this project. This should include the name of each project, the location of the project, the size of the project, a brief description of scope of services, the contract price, and a contact name and telephone number, including area code, of a client reference for each project. Specifically list the firm's roles and responsibilities as the owner's representative for the projects.

We provide a full range of the following investment consulting services outlined below to the ten clients listed in response to Question 12. References and phone numbers are shown in response to Question 12. Fees are negotiated with each client based on their size and specific needs; terms of the contract are kept confidential.

- Investment policy development and review on an ongoing basis
- Asset allocation studies including alternative assets if desired
- Portfolio construction including open manager searches of third party managers
- Help in negotiating manager contracts with beneficial fee arrangements
- Ongoing manager research on all separate account managers
- Third party alternative investments including Exchanged Traded Funds (ETF) as deemed appropriate
- Quarterly performance reports
- Tactical allocation advice if appropriate
- Opportunistic allocation advice as appropriate
- Attendance at quarterly board meetings and at other times as needed by the fund
- Ongoing Trustee education
- Access to the Consulting Group trading desk for your managers. They can trade through these desks if they wish at zero cents per share. Bonds are traded without markup or markdowns. We would see that all managers agree to best execution language in their contracts.
- We will work with the majority of outside custodians or we will provide custodial services if you desire at no additional cost which would include on-line access to your accounts and monthly statements.

11. On the related projects listed in response to question #10 above, **a)** what were the final project change order/amendment amount (s), **b)** were there any cost over runs and amounts, **c)** were the projects completed within the specified timeframe (this includes both substantial completion and interim milestone dates)? If not, why not, and were any damages or liquidated damages paid to the Client(s) as a result of the late completion?
- a) No change.
b) No.
c) Yes.

12. List the names of Clients with contact names and telephone numbers for whom you/your firm have/has professional service projects within the preceding 24 months.

The Houston Team serves as investment consultant to the following ten public funds and has performed continuous consulting services for each of them since hire date:

Client	Contact	Telephone	Size \$million As of 6/30/10
Lubbock Fire Pension Fund 15 Briercroft Office Park, Lubbock, TX 79412	Randy Butcher, Chairman	806-762-1590	\$133.8
Irving Firemen's R&R Fund 845 W. Irving Blvd., Irving, TX 75060	Heidle Baskin, Chairman	972-401-3289	\$106.9
Irving Supplemental Benefit Plan 825 W. Irving Blvd., Irving, TX 75060	Ike Obi, Administrator	972-721-2665	\$36.3
Texas City Firemen's R&R Fund PO Box 307, Texas City, TX 77592	Brian Ringleben, Chairman	409-886-2994	\$11.5
Orange Firemen's R&R Fund 803 Green, Orange, TX 77630	Kenneth Parsons, Chairman	409-886-2994	\$7.5
Waxahachie Firemen's R&R Fund 407 Water, Waxahachie, TX 75080	Gary Myers, Chairman	972-937-7736	\$7.3
Corsicana Firefighters' R&R Fund 200 N. 12 th Street, Corsicana, TX 75110	Dusty Ledbetter, Chairman	903-654-4818	\$5.4
Plainview Firemen's R&R Fund 3405 SW 3 rd Street, Plainview, TX 79072	Albert Perez, Chairman	806-291-1247	\$4.2
Brownwood Firemen's R&R Fund 809 Main, Brownwood, TX 76801	Walter Middleton, Chairman	325-646-5775	\$2.2
San Benito Firemen's R&R Fund 1021 Sam Houston Street, San Benito, TX 78586	Raul Zuniga, Chairman	956-361-3850	\$1.8

Other team members consult to twenty-nine additional defined benefit and defined contribution clients with total assets in excess of \$2 billion.

13. Have you been terminated by a Client for a project within the past 5 years?
No X, Yes ,
If yes, where and why? Give name and telephone number(s) of Client(s).
The Houston team has not been terminated at all during the last five years.
14. Pursuant to the advertisement for proposals and information for prospective proposers for the above mentioned project, the undersigned is submitting the information as required with the understanding that the purpose is for confidential use, only to assist in determining the qualifications of the firm to perform the type and magnitude of work designated, and further, guarantee the truth and accuracy of all statements made.

Date on this 20th Day of August, 2010

Morgan Stanley Smith Barney, LLC

Signature

Lori Sharp

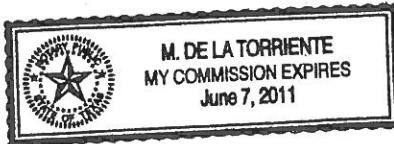
Title

SIC

Date

8/20/2010

GIVEN UNDER MY HAND & SEAL OF OFFICE THIS 20TH DAY OF
AUGUST, A.D. 2010



M. de la Torriente

NOTARY PUBLIC SIGNATURE

NOTARY PUBLIC, STATE OF TEXAS

REFERENCES

Client	Contact	Telephone
Lubbock Fire Pension Fund	Randy Butcher, Chairman	806-762-1590
Irving Firemen's Relief & Retirement Fund	Heidle Baskin, Chairman	972-401-3289
Irving Supplemental Benefit Plan	Ike Obi, Administrator	972-721-2665
Texas City Firemen's Relief & Retirement Fund	Brian Ringleben, Chairman	409-886-2994