

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-trusteed 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*](http://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 AWARDED 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

Meketa Investment Groups is willing and able to provide the services required by the DHE. We possess the experience, investment industry knowledge, and fund selection expertise necessary to assist the Plan in crafting a broadly diversified, economically priced, and well-managed menu of investment options. We will work closely with the Plan's recordkeepers and other service providers, monitoring all recordkeeping, administration and participant services (in addition to closely watching investments), and working with service providers and the plan sponsor to resolve issues, as needed.

8. About the Firm Submitting the Proposal

A. What is the name of the firm?

RESPONSE

Meketa Investment Group, Inc.

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

RESPONSE

Meketa Investment Group is an employee-owned, independent corporation.

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

Meketa Investment Group is independently owned by ten of its senior professionals. We have no parent company or subsidiaries. While we do not anticipate any major changes to personnel or organizational structures, Meketa Investment Group does intend to continue to expand ownership to other senior professionals in the coming years. Please refer to Appendix A for Meketa Investment Group's Organizational Chart.

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

RESPONSE

All of Meketa Investment Group's services are provided on a team basis from our offices in Westwood, MA, San Diego, CA and our newest office in Miami, FL.

Our headquarters address is as follows:

100 Lowder Brook Drive, Suite 1100
Westwood, MA 02090

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

RESPONSE

The firm was founded in 1974 as an investment partnership. In 1978, the firm was incorporated under Massachusetts law and became registered with the Securities and Exchange Commission as an investment advisor. We have been in business continuously for thirty-three years.

- 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

330 fund reviews completed in 2010;

approximately 900 fund reviews completed over the past three years;

approximately 1500 fund reviews completed over the past five years.

- 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

Meketa Investment Group carries a \$20 million annual aggregate Errors & Omissions policy. The policy is underwritten by Houston Casualty Company and Liberty Mutual Insurance Company with a \$150,000 per claim deductible. Houston Casualty Company and Liberty Mutual Insurance Company have ratings of A+ and A, respectively.

Meketa Investment Group also carries an Investment Advisor ERISA Bond with Hanover Insurance Company. The limit of liability on this bond per claim is up to \$500,000 per plan and \$1 million if the plan holds employer securities. The limit of liability for the Policy Annual aggregate is \$25 million.

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

RESPONSE

Meketa Investment Group has been providing investment consulting services to institutional investors for over thirty-three years. The business originally focused on working with defined benefit clients, but over the past twenty years, the firm's client base has expanded to include defined contribution plans. We began working with our first defined contribution plan in 1990, and we currently serve as an investment consultant for over twenty defined contribution plans.

About 5.5% of the firm's business activities is attributable to reviewing defined contribution retirement plans.

- 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:

RESPONSE

Contact Name:	Marc A. Fandetti, CFA, CFP®
Contact Title:	Defined Contribution Practice Leader
Contact Telephone No.:	(781) 471 - 3500
Contact Email Address:	mfandetti@meketagroup.com
Contact Mailing Address:	100 Lowder Brook Drive, Suite 1100 Westwood, MA 02090

- 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

If retained by the Department of Higher Education, Marc Fandetti, John Manley and Mitch Dynan would serve as the client team for the Plan. They would be further joined by a dedicated team of senior investment professionals. The proposed client team is located in our headquarters in Westwood, MA.

Their biographies are provided below:

**Marc A. Fandetti, CFA, CFP® - Senior Vice President /
Defined Contribution Practice Leader**

Mr. Fandetti, a Senior Vice President at the firm, is in his sixth year at Meketa Investment Group's Boston office, and his sixteenth year of servicing retirement benefit plans. He began his finance career in 1997 at State Street (now ING Advisors), where he led a team that became among the first in the nation to provide financial advice to defined contribution plan participants.

In addition to personal financial advice and planning, Mr. Fandetti's roles eventually included investment advice product development, supervision of delivery, and reporting of results to participants and plan sponsors.

Prior to joining State Street/ING Advisors, Mr. Fandetti was a producer and weekend host at WPRO-AM radio, in East Providence Rhode Island. He joined WPRO in 1992 as an intern, initially assisting with production, announcing traffic, and performing commercial "voice overs." While with WPRO, Mr. Fandetti produced both the early morning and mid-day talk shows and delivered news and sports on weekends.

Mr. Fandetti serves as consultant on various defined benefit, defined contribution, annuity, and health & welfare funds, with Taft-Hartley and corporate plan sponsors. His consulting work includes investment policy design and asset allocation modeling, in addition to the analysis of manager and fund performance. Additionally, Mr. Fandetti serves as the firm's Defined Contribution Practice Leader.

Mr. Fandetti, a graduate of Providence College (BA) and the College for Financial Planning (MS), is a CERTIFIED FINANCIAL PLANNER™, a Chartered Retirement Plans SpecialistSM and a Chartered Mutual Fund CounselorSM. He currently holds the Chartered Financial Analyst designation and previously held the NASD Series 6, 63 and 65 licenses. He is also a member of the Economic Development Commission for the Town of Wrentham, Massachusetts.

John J. Manley, CFA - Principal

Mr. Manley is in his seventh year at Meketa Investment Group. He received a BA in Economics and Government from Hamilton College and was recognized as a Hamilton College Scholar Athlete, playing on both the varsity football and ice hockey teams.

In 2004, Mr. Manley received the Chartered Financial Analyst designation from the CFA Institute, and he is a member of the Boston Security Analysts Society and the CFA Institute. Additionally, Mr. Manley has passed Level I of the Chartered Alternative Investment Analyst (CAIA) exam.

Mr. Manley serves as consultant on various defined benefit, annuity and health & welfare funds, with Taft-Hartley and corporate plan sponsors. His consulting work includes investment policy design and asset allocation modeling, in addition to the analysis of manager and fund performance. Mr. Manley is also a member of the firm's Public Markets Investment Committee.

Prior to joining Meketa Investment Group, Mr. Manley was a senior research analyst at Kobren Insight Management and a client account manager at Brown Brothers Harriman. Mr. Manley has been a guest speaker at the International Foundation of Employee Benefit Plans (IFEBP) Annual Employee Benefits Conference and Boston College's Carroll School of Management. Away from work, Mr. Manley is a member of the Noble and Greenough School Graduates Council.

**Mitch D. Dynan, CFA - Executive Vice President /
Director of Public Markets Manager Research**

Mr. Dynan joined Meketa Investment Group in 2008 and has more than twenty-five years of investment experience. He graduated from Tufts University, magna cum laude, with a double major in Economics and History, and holds the Chartered Financial Analyst (CFA) designation. He is a member of The Boston Society of Security Analysts and the CFA Institute.

Mr. Dynan started his career at the Chase Manhattan Bank and completed their credit training program. He subsequently joined Kidder, Peabody where he worked as a sell-side analyst before making the transition to investment management at MFS Investment Management. Mr. Dynan spent sixteen years at MFS as an equity analyst and co-portfolio manager of Massachusetts Investors Trust, a large mutual fund. After two years at Fortis Investments, Mr. Dynan joined Mintz Levin Financial Advisors, a financial planning and wealth management firm, where he served as Chief Investment Officer. In that role, he worked with individual clients, wrote the firm's quarterly market commentary, analyzed and selected equity and fixed income managers, and evaluated a broad spectrum of alternative investments.

The depth and quality of the Meketa Investment Group investment staff allows for incomparable client service. We provide immediate and detailed responses to all inquiries from our clients. Each of our clients is assured personal attention from one of several consultants, analysts, and support staff. Please refer to Appendix B for the biographies of the Meketa Investment Group's Investment Professionals.

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.

Reference 1

Name:	Mr. Brock E. Hastie
Title:	Vice President
Organization:	City of Ann Arbor
Mailing Address:	455 E. Eisenhower Parkway, Suite 300 Ann Arbor, MI 48108

Email Address:	brockhastie@risadvisory.com
Telephone No.;	(734)769-7727
Date the firm was engaged by this client:	2/2011
Is this an ongoing relationship or a one-time project:	Ongoing Relationship
Brief Description of the work completed for this client:	General Consulting Services

Reference 2

Name:	Mr. Bruce Huff
Title:	Executive Vice President, Trustee
Organization:	Laborers' District Council & Contractors Pension Fund of Ohio
Mailing Address:	1648 Petersburg Road, P.O. Box 420 Hebron, KY 41048
Email Address:	bhuff@harperco.com
Telephone No.:	(859) 586-8890
Date the firm was engaged by this client:	1/1978
Is this an ongoing relationship or a one-time project:	Ongoing Relationship
Brief Description of the work completed for this client:	General Consulting and Discretionary Private Markets Services

11. Methodology & Resources

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

RESPONSE

Meketa Investment Group has specific, strict criteria to identify manager candidates for our clients. We ensure that the most appropriate managers have been identified for each client for each search, by utilizing our tools and resources.

As described below, we evaluate a manager's strategy and process, resources and performance, and fees:

Investment Strategy - We analyze each manager's investment strategy from a number of perspectives. Managers utilize bottom-up and top-down strategies, growth- and value- based strategies, fundamental and technical strategies, quantitative and qualitative strategies, and varying blends of strategies. We evaluate each strategy and its likelihood of producing superior investment returns in the future.

Investment Process - We evaluate the process behind the implementation of each manager's investment strategy to ensure that it is clearly articulated, consistently applied, cohesive, and efficient. An inadequate process can lead to poor or delayed investment decisions.

Investment Resources - We evaluate each organization's structure to ensure stability and depth. In today's turbulent environment, when it is common for key personnel to leave an investment organization without warning, it is important to ensure that the talent pool is sufficiently deep to withstand personnel departures.

Investment Performance - We evaluate the performance record of each manager, including relative and absolute total returns. Also, returns are evaluated to determine the risk inherent in the investment strategy and the "fit" of the particular strategy within the existing investment plan.

Operating Costs - We evaluate all the costs involved in implementing an investment strategy. The surest way to produce a higher investment return is to lower management fees and other operating costs.

Meketa Investment Group's research process is a comprehensive approach focused on constant diligence of our clients' current managers, evaluation, and selection of new manager opportunities and on-going sourcing of new ideas.

We meet with our clients' managers regularly, and are always cognizant of how industry and market changes may affect our clients. We are proactive, not reactive, in protecting client assets and informing clients of relevant developments. Every quarter, we send a detailed questionnaire to all of our clients' managers. The purpose of this questionnaire is to determine for each manager if any significant changes have occurred in their firm or among their investment personnel. Further, the questionnaire inquires about compliance with investment guidelines, regulatory violations, lawsuits, or investigations. If our research indicates the beginning of potential problems, we examine the manager even more thoroughly. When necessary, we do not hesitate to make the recommendation to terminate a manager that is not adding value to our clients' funds.

Our monitoring program, which we believe is one of the most intensive in the industry, includes the following:

- Frequent, in-person, on-site inspection visits -- these meetings are sometimes conducted on a surprise basis
- Conference and videoconference calls
- Detailed analysis of trends, strategies, and tactics
- Reconciliation of each manager's reported investment performance

More specifically, equity manager portfolios are analyzed by examining portfolios from a number of different perspectives. Utilizing a third-party database of equity fundamentals, we calculate each portfolio's fundamental characteristics (price-earnings, price-book value, dividend yield, historical earnings growth, and projected earnings growth) to determine the actual investment style of the manager. We segregate the portfolio by capitalization, to determine any tendency toward larger or smaller stocks. We divide the portfolio into

industries to see if the manager is placing hidden industry bets, or exposing the fund to undue industry-specific risks.

Fixed income portfolios are scrutinized by focusing primarily on the risks inherent in bond investing, i.e., interest-rate risks, credit-quality risks, currency risks, and sector risks.

Changing investment managers is a very expensive process, and should never be undertaken lightly. Further, it is very difficult to judge a manager's real potential for adding value using short-term data. The world's capital markets are volatile and capricious, and even an excellent manager may produce mediocre short-term results. Our job as investment consultants is to know when a manager's sub-par performance is grounds for termination, and when it is simply short-term bad luck.

Unfortunately, it is sometimes necessary to fire a manager and hire a replacement. Generally, we recommend that a manager be terminated for the following types of reasons:

- Large scale turnover of important personnel,
- Failure to maintain the portfolio within assigned guidelines,
- Unexpected investment strategy or style deviation,
- Significant underperformance that cannot be attributed to market forces beyond the manager's control,
- Significant loss of clients or assets under management,
- Financial instability at the firm,
- And, significant change in organizational or ownership structure.

When appropriate, we monitor managers on an especially intensive basis called a "Watch Status." "Watch Status" is an intermediate state of heightened oversight, triggered by any change that could jeopardize an investment manager's ability to fulfill their role successfully. Once on Watch Status, Meketa Investment Group informs the manager and the client that the manager has been placed on Watch Status, and notes the event that triggered the status change.

Meketa Investment Group also continuously scrutinizes all of the operating costs associated with our clients' investments. Wherever possible, we negotiate lower fees and/or more favorable terms. Additionally, we look for opportunities to aggregate client investments, providing more leverage and allowing for more favorable terms than a client would receive on its own. In some cases we have been able to recover the equivalent of our consulting fees in certain years.

The negotiation of management fees and terms is one of the most important aspects of our work as investment consultants. Investment management fees typically represent the largest component of a Plan's expenses, and should be negotiated and monitored closely. The surest way for a Plan to produce a higher investment return is to lower management fees and other operating costs. To stay up-to-date on manager fees, Meketa Investment Group conducts periodic surveys of the investment marketplace to assess trends in investment management fees.

Meketa Investment Group's hands-on, proactive fund coordination has resulted in significant annual fee savings. With thirty-three years of experience reviewing and negotiating fees on behalf of clients, Meketa Investment Group has the expertise to evaluate the current fee structure for the Plan, as well as the skill and competence to successfully renegotiate investment managers' fees.

The following are a few examples of successful manager fee negotiations for our clients:

- Negotiated an annual relationship fee for a Massachusetts-based client.

Recurring annual fee savings: \$730,000.

- Negotiated an aggregate Meketa Investment Group client fee break ("large investor fee break") on aggregated client commitments to an opportunistic closed-end real estate fund.

Recurring aggregated annual fee savings: \$208,750.

- Negotiated a reduction of the investment management fees of a hedge fund-of-funds for a New York-based client.

Recurring annual fee savings: \$250,000.

- Negotiated the management fees of a large cap value U.S. equity strategy for an Ohio-based pension plan.

Recurring annual fee savings: \$100,000.

In addition, in order to help our clients manage total plan costs, Meketa Investment Group not only benchmarks each client's investment managers against its peers, but also compares recordkeeping, administration and other services to those provided to similarly-situated plans. We regularly update our internal database with current fee information for all defined contribution plans for which we provide investment advisory services. This provides us with a reference point for benchmarking a particular plan to similar plans, considering the number of participants, the services provided, and other factors relevant to pricing.

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

RESPONSE

We would obtain information about the funds directly from the Provider and the fund managers, as well as a combination of manager databases – both third-party and proprietary.

Meketa Investment Group utilizes three distinct investment manager databases. Two are third-party databases that include over 3,000 managers and over 10,000 investment products (including mutual funds). These third-party databases are updated at least quarterly and include both performance and data concerning the managers' operations.

The two third-party databases are Morningstar and eVestment Alliance.

Morningstar -- Morningstar information provides the basis for Meketa Investment Group's custom peer indices, which unlike market indices, have the advantage of including real-world transaction costs and fees. In addition to information on

approximately 6,000 mutual funds, Morningstar provides us with detailed information on approximately 500 closed-end funds.

eVestment Alliance -- Meketa Investment Group has purchased a customized database from eVestment Alliance that includes in-depth profiles of virtually the entire universe of institutional investment managers, plus the range of products they offer.

Additionally, we compile our own proprietary manager database of approximately 2,000 investment managers and over 3,500 of their respective investment products. This database is updated continuously.

- 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

Meketa Investment Group transitions many accounts every year, from a variety of consultants, custodians, and investment managers. We have created a sound process to request and verify data and information received. We have not encountered any significant obstacles historically that caused any meaningful delay in our ability to provide clients with our contracted services in a timely manner.

As part of our Initial Review start-up process, information initially requested of new clients would include summary plan documents, custodian and manager contracts, most recent quarterly reports from the prior consultant, manager guidelines, brokerage agreements, Board meeting schedule, contact information for the Board Members, advisers, service providers, etc. Information initially requested of investment managers is extensive, and includes descriptions of the strategy employed, fees charged, professional biographies, performance history, and portfolio holdings. From the custodian, we require timely access to all relevant data, including market values, performance, portfolio holdings, and cash flows.

Next, we examine the historical performance information provided to us by the client's custodian bank, investment managers, and former consultant (if any). We reconcile and verify the integrity of this information, checking the performance and data provided to us by money managers and the custodian bank. Once this process is complete, the data is formatted into our proprietary performance database. This data then provides the basis for the client's trailing performance record.

After the initial start-up process, going forward we would contact the Provider and the fund management company directly in order to obtain and verify all of the information that we need.

- 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

Although most quarterly reports produced by Meketa Investment Group take on the same general structure, our proprietary reporting software enables us to produce highly customized materials. As such, we are able to produce, as requested, for each investment option:

- A Plan Summary Grid that compares the fund's trailing performance
- 60-month Sharpe Ratio
- Sector Concentration
- Top 10 Holdings
- Fund Management analysis
- Expense analysis
- Risk/Return analysis

Client reports also generally include the following:

Executive Summary — In this section we summarize broad market conditions, plan and manager performance, and recommended change items at the beginning of each report. The Executive Summary sets the tone for our presentation, and serves as a guide to any discussions. Also, the Executive Summary enables the busy decision-maker to obtain critical information quickly and efficiently. We will not make you "wait" for important conclusions.

Legal and Regulatory Updates — These typically appear immediately following the Executive Summary section of our reports. Developments such as the recently announced "interim final regulations" regarding plan service provider fee disclosures may require decision-maker action, and as such as positioned prominently in our reports.

Individual Manager Reviews - We perform detailed evaluations of each manager's portfolio. Our analysis compares the manager's actual investment position with their purported style, examines their performance relative to market and peer indices, and ensures their compliance with all investment guidelines and restrictions.

Evaluating Participant Investment Decisions - Even a very well-thought out fund menu, if not properly communicated, may be inappropriately utilized by participants. This can frustrate the intentions of the decision-makers and worse, lead to sub-par choices and outcomes. As such, we work with the Plans' recordkeeper to ensure that participants are, on balance, making appropriate use of the Plans' investment options. Usage is included in our report manager pages.

Monitoring Target Date Asset Allocation Fund Diversification - Target Date asset allocation funds (“TD funds”) consist of a number of underlying managers, weighted to achieve a particular risk/return balance, rebalanced periodically, and reallocated to become “less risky” over time. TD funds must be closely monitored: Ongoing suitability of underlying managers should be continuously affirmed, while overall asset allocation must be checked for reasonableness in light of market conditions, as should the gradual reallocation schedule (“glide path”). Our TD fund manager information pages address these critical areas.

Aggregate Fund Performance - For both recent and historical periods, we evaluate the Plans’ total performance relative to a number of indices, including peer indices and those customized by Meketa Investment Group to reflect the Plans’ asset allocation and structure.

Aggregate Asset Allocation - Each report reviews the Plans’ asset allocation relative to its target and makes explicit recommendations for adjustments if appropriate.

Meketa Investment Group views continuous client education to be an essential component of the services we provide. These communications range from formal memoranda to telephone conversations to in-person discussions at our clients’ investment committee meetings.

Please refer to Appendix C for a copy of Meketa Investment Group’s sample quarterly report. Meketa Investment Group’s annual reviews are usually identical in format and content to our quarterly reports. However, we would work with the DHE to create customized annual reviews that will reflect the content and format preferred. We are willing and able to put together comprehensive reports that detail individual fund performance and evaluations, guidance and recommendations regarding current plan structure, as well as a thorough fee and analysis.

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

RESPONSE

Meketa Investment Group works with many defined contribution plans, and has decades of experience reviewing best practices and enhancing the structure and educational components of those plans. On behalf of our clients, Meketa Investment Group strives to stay apprised of all regulations that impact defined contribution plans. We comprehensively review both existing, and pending legislation, and identify areas where each of the plans may need to make changes to remain compliant with any applicable statutes or laws.

Meketa Investment Group routinely builds, implements, and monitors investment menus for defined contribution plans. Our work has included simplifying investment lineups by eliminating overlapping funds, and reducing fees and risk through indexing; improving participant decision-making through the addition of suitable target-date or target-risk asset allocation funds; and recommending the adoption of other services, such as investment advice and enhanced participant communications, where appropriate. Our goal is to provide the plans with the advice to improve their current plan structures and administrative processes, and to determine the most flexible yet cost-effective plan design.

To serve our clients well, we conduct in-depth internal research on a constant basis. Our research focuses on economics, capital markets, investment strategies, legislative changes, and investor needs. Meketa Investment Group formally revises a model portfolio document on an annual basis. The model portfolio represents our best practices with respect to all aspects of investing institutional assets, a comprehensive manual to guide an endowment, foundation, defined contribution plan or pension fund. It addresses dominant issues such as asset allocation, implementation issues (e.g., manager selection) and operational issues (e.g., custodian banking and brokerage). The model portfolio serves to organize all of our research efforts and to focus them on specific ways of improving performance.

We also prepare specialized “white papers” detailing the risks and opportunities implicit in various types of investments. We generally produce six to eight white papers per year, and regularly update existing papers, all of which we make available to our clients. The table below provides a summary of our current whitepaper library (the firm’s most recent white papers are in bold):

Meketa Investment Group’s White Papers		
<ul style="list-style-type: none"> • A Better Way to Manage Managers • An Overview of Hedge Funds • Bank Loans • Commodities • Core Real Estate • Defined Benefit and Defined Contribution • Dynamic Asset Allocation • Emerging Markets • Endpoint Bias • Enhanced Indexing • Equity Index Funds • Equity Style 	<ul style="list-style-type: none"> • Frontier Markets • High Yield Bonds • International Small Capitalization Equities • Introduction to Private Equity • Infrastructure • Investing in Foreign Bonds • Manager Oversight – Watch Status • Mezzanine Debt • Microcap Stocks • Natural Resources • Non-Core Real Estate • Performance-Based Fees 	<ul style="list-style-type: none"> • Portable Alpha • Rebalancing Investments • Risk Parity • Searching for Manager Alpha • Securities Lending • Short-Term Fund Management • Tactical Asset Allocation • Stable Value • Transition Management • TIPS • Timberland • Value of Quality, Stability and Income

Each of these publications is available to our clients. Meketa Investment Group’s investment professionals are constantly updating and researching new white papers and research reports. In addition to these published reports, our investment professionals regularly speak at and have made formal presentations at numerous conferences and industry events each year.

A significant component of our work as consultants is to provide on-going education to our clients. We welcome the opportunity to work with clients one-on-one or in a group forum at a location convenient to them. Our educational programs take many forms.

Meketa Investment Group considers Trustee education an important part of our job as consultants. All of our education is done on a client-by-client basis. In this way, each client receives Meketa Investment Group’s full attention, and all investment seminars are organized specifically for each client.

We believe that an educated Trustee is much more likely to make prudent investment decisions. Consequently, we constantly strive to educate Trustees on various investment topics. Our preference is to organize off-site investment seminars for clients where we can devote uninterrupted time to investment education. However, we realize that many clients simply do not have the time to spend many days each year learning about investment issues. For those clients, we ensure that adequate time is spent at regularly scheduled Trustee meetings to discuss investment issues.

In general, our educational initiatives fall into four broad categories.

Educational Seminars - These seminars can take place in either of our two office locations or at a location determined by the client. They normally last between one and three days, and typically involve formal presentations by Meketa Investment Group on pertinent investment topics, such as alternative investing, international equity investing, or long-term asset allocation. The meetings are highly interactive and offer clients an opportunity to ask many questions that they are unable to ask in a typical client meeting environment. These seminars are customized by the client and Meketa Investment Group.

Regular Educational Discussions - For clients that do not have the time to devote to an off-site educational seminar, Meketa Investment Group regularly infuses educational content into our discussions with the client at quarterly meetings. Usually at investment sub-committee meetings, Meketa Investment Group will spend significant time educating the client on investment topics relevant to decisions they are soon to make. We will never make any recommendation to the client until they are fully aware of the risks and potential rewards involved with a specific investment.

Research Papers - Meketa Investment Group regularly provides clients with research papers on timely investment topics. These research papers augment our educational services and are particularly useful for clients that have limited time available to devote towards education.

Client Conferences - Meketa Investment Group also holds a client conference that brings our clients together, and allows for informal discussions as well as formal presentations by our principals, consultants, and research staff on timely investment-related topics.

All of our educational work is presented in plain English, and is designed to be useful for non-investment professionals as well as sophisticated investors.

Please refer to Appendix D for samples of Meketa Investment Group's White Papers.

12. Special Requirements

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

RESPONSE

Meketa Investment Group routinely obtains market value and performance information from custodian banks and recordkeepers via a “data gathering interface.” We would establish such an interface with the service providers utilized by Department of Higher Education if retained as consultant.

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).

RESPONSE

Per RFP instructions, our Cost Proposal is enclosed in a separate document, sealed in an envelope.

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

Based on the requirements outlined in this Request for Proposal, we do not foresee any issues with fulfilling the needs of the DHE.



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).

RESPONSE

Based on Item 7 "Services to be Provided," as outlined on page 10 of the Request for Proposal DHE-ORP-004, our proposed flat fee rate for these services would be \$95,000 per year, payable monthly in arrears.