

# Alpha Consulting Group

*of Wells Fargo Advisors*

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December 4, 2009

Mr. Curtis R. Rose, C.P.M., A.P.P.  
Purchasing Manager  
Port of Houston Authority  
Attn: Bid Receipt Dept.  
P.O. Box 2562  
Houston, TX 77252-2562

Re: Request for Proposal for Pension Investment Consulting Services – The Port of  
Houston Authority Pension Plan

Dear Mr. Rose:

Please accept the enclosed response to the subject RFP with all required attachments, exhibits and the proposed fee schedule in separate envelope, as requested. We hope this submission reaches your office in good form and as prescribed in the RFP.

We have thoroughly read the RFP and believe we have a complete understanding of the work to be done and assure you that the work is well within the scope of our service capabilities.

Those authorized to make representations for the proposer are:

Roy Browning, Jr., CIMA  
Senior Institutional Consultant  
Alpha Consulting Group  
Wells Fargo Advisors  
201 Main Street, Ste 1700  
Fort Worth, TX 76102  
(817) 877 9802

Kelly Bevis, CIMA  
Senior Institutional Consultant  
Alpha Consulting Group  
Wells Fargo Advisors  
201 Main Street, Ste 1700  
Fort Worth, TX 76102  
(817) 877 9889

Our firm, Alpha Consulting Group, was founded in 1997. Wells Fargo was founded in 1852.

We remain, sincerely,



Roy Browning, Jr. CIMA



Kelly Bevis, CIMA

Corporations Section  
P.O.Box 13697  
Austin, Texas 78711-3697



Hope Andrade  
Secretary of State

## Office of the Secretary of State

### Certificate of Fact

The undersigned, as Secretary of State of Texas, does hereby certify that the document, Application for Certificate of Authority for Wells Fargo Advisors, LLC (file number 800214557), a DELAWARE, USA, Foreign Limited Liability Company (LLC), was filed in this office on June 16, 2003.

It is further certified that the entity status in Texas is in existence.

In testimony whereof, I have hereunto signed my name officially and caused to be impressed hereon the Seal of State at my office in Austin, Texas on December 03, 2009.



A handwritten signature in black ink that reads "Hope Andrade".

Hope Andrade  
Secretary of State

Come visit us on the internet at <http://www.sos.state.tx.us/>

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Document: 286477030006



# Request for Proposal for Investment Consulting Services

Presented by

Roy Browning, Jr., CIMA  
*of Wells Fargo Advisors, LLC*

Kelly Bevis, CIMA  
*of Wells Fargo Advisors, LLC*

201 Main St.  
17<sup>th</sup> Floor, Suite 1700  
Fort Worth, TX 76102

**(817) 877-9802**

Dated December 10, 2009

**Port of Houston Authority  
Investment Consulting Services  
December 10, 2009**

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## **VI. Detailed Questionnaire**

**All questions should be answered in the order listed. Use a separate form for your response.**

**Please provide information about the following:**

**A. Your firm**

- 1. Provide a copy of your ADV as filed with the SEC.**

Wells Fargo Advisors, LLC is a Registered Investment Advisor with the SEC under the Investment Advisors Act of 1940 and provides all the required disclosures. Please refer to <http://www.adviserinfo.sec.gov> for our most current ADV and to the attached ADV Part II. See enclosed addendums.

- 2. Describe all past, present, and pending censures by the SEC.**

With respect to our institutional consulting practice, there have not been any censures by the SEC that have resulted from activities in this area.

- 3. Describe any past, present, and pending criminal, civil or administrative litigation against your firm.**

As Wells Fargo Advisors is involved in a wide range of activities in the securities industry and employs over 30,000 people in the delivery of investment advisory services to a wide array of customers, a complete answer to this question is beyond the scope of this response. With respect to our institutional consulting practice, we are not aware of any litigation or compliance investigations that have resulted from activities in this area. Please refer to <http://www.adviserinfo.sec.gov> for our most current ADV and litigation information.

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

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Wells Fargo Advisors is a subsidiary of Wells Fargo & Company, a public company whose common stock trades on the New York Stock Exchange under the symbol WFC.

**5. If any changes in firm ownership are being contemplated, please provide details on the contemplated changes.**

There are currently no changes in ownership being contemplated.

**6. How long as your firm been in business?**

Wells Fargo & Company has been in business since 1852, offering banking (buying gold, and selling paper bank drafts as good as gold) - and express (rapid delivery of the gold and anything else valuable). Wells Fargo Advisors has provided investment-consulting services to institutional clients since 1976. The Institutional Consulting Group of WFA was founded after a higher demand for services for institutional type clients was required. The Group provides support to pension funds, endowments, foundations, special interest organizations, religious organizations, insurance surpluses, and other institutionally natured clients.

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

See enclosed addendums..

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

INSURANCE TYPE	COVERAGE LIMIT
<b>Commercial Property</b> (covering Real, Personal Prop, Rents B&M, Transit)	\$5 Million per occurrence
<b>Commercial General Liability</b>	\$10 Million per occurrence
<b>Business Auto Liability</b>	\$10 Million per occurrence
<b>Workers Compensation / Employers Liability</b>	\$1 Million per accident
<b>Banker's Blkt Bond plus Computer Crime (Employee Dishonesty)</b>	\$100 Million

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<b>Banker's Professional Liability</b>	\$100 Million
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- 9. Provide an organization chart for your firm. Show the total number of employees in each section of the organization chart.**

See enclosed addendums.

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

Please refer to our firm's EEOAA policy in the enclosed addendums.

- 11. Describe the types of compensation available to your professional staff, especially any type(s) that would apply to the team covering this account.**

Consultants are compensated based on clients engaging them for consulting services. A portion of the fee is paid to the lead consultants with the remainder flowing to Wells Fargo Advisors to cover overhead. Historically, there have been various deferred compensation programs available to consultants that incent such consultants to stay with the firm.

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

The Institutional Consulting Group services approximately 449 accounts and \$20 Billion in client assets including public funds, Taft-Hartley plans, endowments, pension funds, religious organizations, insurance companies and other institutionally natured clients. Client assets range between \$10 million and \$4 Billion. The average size of our institutional relationships is about \$50 Million.

- 13. Have you placed a limit on the number of clients your organization will serve? If yes, please provide that limit.**

Wells Fargo Advisors, LLC does not limit the number of clients for our consultants. The Alpha Consulting Group currently consults with fewer than fifty clients and has the capacity for additional clients without adding personnel.

- 14. What is the largest number of clients handled by one team?**

Our success is defined by the satisfaction of our clients and ability to become a partner in fulfilling their mission. For this reason, we focus on quality rather than quantity. We seek to measure our value added services to the satisfaction of the client. We limit the number of clients to the extent we can fulfill their mandate with our consulting services. We will prudently and expeditiously add team members in advanced of any strain within our

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consulting process. We do not currently track the consultants with the largest number of clients.

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

This information is not currently tracked by our firm. Alpha Consulting Group services four different accounts for the City of Amarillo, Texas and one account, Abilene Firemen's Relief and Retirement Fund, for the City of Abilene, Texas.

No, there are not significant differences. The main issues revolve around the regulations that govern each. The reporting, policy statements, asset allocation analyses, manager searches and the like are, essentially, the same.

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

There are none.

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

Our mission is to provide our clients with the most professional, objective and ethical consulting service while achieving their specific financial goals. To be successful, this mission must include absolute objectivity and integrity in the relationship that the Institutional Consulting Group has with money managers hired to invest plan assets. This is we do not sell research to managers, why they do not pay to be in our database and why we do not sell any services to managers.

To avoid conflicts of interest, it is suggested that the consultant and other service providers, their subsidiaries, and/or parent companies, disclose any fees, trades, or other forms of compensation between parties on a quarterly basis. Wells Fargo Advisors, LLC believes that full disclosure of these types of transactions builds trust and we can better avoid potential conflicts of interest or favoritism between professionals.

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

We do not receive direct compensation from money managers, investment funds, brokerage services or other service providers.

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

Wells Fargo Advisors is affiliated with several money managers, Evergreen Asset Management, Jennison Dryden Associates, Nelson Capital Management and Wells Capital Management. All of these relationships are fully described in our disclosure documents.

When acting as a client's consultant, Wells Fargo Advisors generally does not recommend an investment manager owned or affiliated with the corporation unless the consultant feels that those services best suit the client's goals. The client will receive a prospectus covering Wells Fargo's relationships with affiliates and the fees/compensation that may be received in the event of an affiliate selection. Consultants may therefore receive compensation, but the Client Strategy Group including the Research team does not.

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

We are extremely sensitive to those issues that might give rise to a conflict of interest. As required for a registered broker-dealer, as well as Registered Investment Advisor, Wells Fargo Advisors, LLC has a Compliance Department and a Chief Compliance Officer. The CCO and Compliance Department identify potential conflicts of interest and work with affected departments to develop policies and procedures to avoid such conflict.

Should a conflict be detected, Alpha Consulting Group representatives would disclose such findings in writing to the Pension Committee.

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

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Wells Fargo Advisors recognizes its role as fiduciary under ERISA's Section 3(21)(A) and evidences that fact in writing as part of our Consulting Agreement. As such, we would provide continuous attention to the fiduciary responsibilities shared by the board members of the Port of Houston Authority and our firm.

We believe that the role of an Investment Consultant is to manage - not to make investment decisions. Investment Consultants assist clients in fulfilling their fiduciary responsibilities by implementing prudent investment consulting processes. This, coupled with timely unbiased information about investments offered in concert with trustee education, prepares clients to make informed investment decisions on behalf of their organizations.

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

Please refer to our conflicts of interest policy in our response to Questions 17-20 above.

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

Wells Fargo Advisors provides all required disclosures required of a Registered Investment Advisor and is proactive in communicating areas that may present a conflict of interest.

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

The Institutional Consulting Group does not support compensation via commissions in a soft-dollar offset arrangement. Wells Fargo Advisors maintains a compliance department to monitor that all items such as gifts are compliant with FINRA guidelines. The Alpha Consulting Group team is also compliant with the FINRA regulations.

**B. Your Services**

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

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Yes. Studies have shown that asset allocation is the principal determinant of a portfolio's long-term investment return. Our first step is to conduct a risk posture assessment. Risk posture assessment incorporates a 12 point analysis of the Plan's actuarial report gauging relative risk-taking capacity in three main areas of analysis: time horizon, funded status and financial condition. Separately in this process, we conduct a survey of the key fiduciaries associated with the Plan to determine a consensus of risk preferences. The aim of risk posture assessment is to render an appropriate equity range, as equity exposure is the primary determinant of both potential return and risk in the portfolio.

The next step is Asset Allocation modeling which evaluates a wide variety of asset classes and portfolio style combinations to best achieve a client's investment goals. The modeling process analyzes different risk parameters with a client's investment goals in mind, ultimately forming the basis for a well-conceived risk control plan. In accordance with investment policy, the client's asset allocation should exhibit a return/risk profile that would meet current spending and distribution needs while minimizing exposure to market volatility.

To conduct an asset allocation study, we will use the Investment Policy in conjunction with our analytical tools such as New Frontier Advisors Allocation Optimizer to determine the most appropriate asset mix for the given risk tolerance. We will monitor portfolio progress and investment environment changes and opportunities, and may suggest modifications that have historically added value while minimizing risk.

The Institutional Consulting Group believes that the asset allocation policy is the most important aspect of the investment management process. We can provide valuable assistance in making asset allocation decisions designed to meet the fund's objectives. This includes evaluating the preferred long-term asset allocation target and allocation constraints such as minimum and maximum exposure to certain asset classes.

References:

**Mr. Dean Frigo**

**Assistant City Manager for Financial Services**

**City of Amarillo, Texas**

**Amarillo, TX**

**(806) 378 3040**

**Mr. Steve Pratt,**

**Vice President – Finance**

**Port of Houston Authority  
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**Alfa Laval, Inc.**

**Richmond, VA**

**(804) 545 8122**

**Mr. Brian Kennell**

**Vice President – Finance**

**Tetra Pak, Inc.**

**Vernon Hills, IL**

**(847) 955 6677**

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

Yes. The manager search process for a specific client begins only after your fund's investment policy has been established. Our consulting process reviews and analyses the strategic investment plan that has been established to determine the allocation among the various asset classes and investment styles within each asset classes. The search for specific managers can then be made that will invest according to the established plan.

In conducting a manager search, we encourage our clients to participate actively in the development of the qualifications and constraints that managers must meet in order to become genuine candidates. We will also include any investment managers the Board would like to have considered.

The first step of the search is to identify managers who meet some basic criteria such as size, location, assets managed, investment style, compliance issues, or ownership structure. The initial list of "qualified managers" is then screened for superiority of qualitative characteristics discovered during our manager evaluation process.

The final screening for those remaining managers is quantitative. At this point, we are looking for superiority of absolute and risk adjusted performance, volatility, consistency of returns, and adverse market performance. This process provides the investment committee with a working list of managers that will be invited to make presentations. The Alpha Consulting Group will participate in these manager presentations and help the committee to make its final decision.

After the manager(s) are hired, the Manager Strategy Group will use the same research process to update its evaluation at least annually. This ongoing evaluation process enables

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us to identify any changes that could impact either the risk or return posture of the portfolio.

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

The "Recommended" and "Allowable" investment managers that are available to our clients have successfully passed through the MSG research process. While MSG cannot predict the future success of any investment manager, we can guarantee that the "Recommended" and "Allowable" investment managers available to you have passed through our rigorous screening process detailed below.

**Step #1 - Universe Screening**

Step one entails screening the broad universe of available investment managers. There are approximately 23,000 investment advisers registered with the Securities and Exchange Commission (SEC). Our databases and screening tools help us condense this vast universe. The initial screening is as follows:

- Sort by Asset Class (i.e. large-cap, mid-cap, small-cap, developed, international, etc.)
- Sort by Investment Style (i.e. growth, value, core, growth-at-a-reasonable price, etc.)
- Screen for strong Performance (trailing period and rolling period results versus benchmark and comparable universe)
- Screen for strong Risk-adjusted Performance (trailing period and rolling period results versus benchmark and comparable universe)

**Step #2 - Meeting the Minimum Criteria**

Once MSG has identified attractive investment managers based on our initial screening process, we make sure these candidates meet our minimum criteria. Our minimum criteria include, but are not limited to:

- Acceptable level of Assets Under Management (typically \$150 million by firm and at least \$50 million in product)
- Acceptable level of Accounts Under Management
- Credible Track Record Length (typically at least five years)
- Strong client service capability

**Step #3 - Quantitative Analysis**

If an investment manager passes our initial screening process and meets our minimum criteria, then the investment manager is subjected to a more stringent quantitative analysis. This analysis includes, but is not limited to:

- Absolute Performance
- Risk and Downside Exposure

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- Risk-adjusted Performance
- Style Analysis and Consistency

All of the above noted measurements are arbitrary unless measured against something meaningful. Based on an intensive review of an investment manager's style, MSG determines the manager's style and the most appropriate benchmarks for comparisons.

**MSG evaluates an investment manager's performance (absolute and risk-adjusted) based on the following:**

- ◆ Index Comparisons – MSG Research identifies the most appropriate index benchmarks for each investment manager. For example, if a manager invests in small companies, it would not be fitting to measure their performance against the S&P 500 (a broad index of larger companies). Rather, a more appropriate index would be the Russell 2000, which is used to gauge the performance of small cap managers. However, if a manager invests in small companies that are in an aggressive growth phase, then an index (i.e. Russell 2000 Growth) highly correlated with a portfolio of small-cap growth stocks would be appropriate.
- ◆ Universe Comparisons – Similar to index comparisons, it is important to measure an investment manager's performance relative to a universe of investment managers that manage assets in a similar fashion. Universe comparisons are a great supplement to index comparisons, as indexes do not provide meaningful comparison in all market environments.
- ◆ Rolling Periods Analysis - Evaluating a manager's performance on a fixed time period (e.g. three-year) is often misleading. For example, if a manager's three-year annualized return is favorable due to a strong recent quarter return, and that is removed from the data to expose performance that reflects poorly, then an investor may experience tremendous swings in the manager's returns from period to period. Due to the shortcomings of fixed time period analysis, MSG evaluates performance over a variety of different periods, including rolling periods that allow an investor to identify trends in an investment manager's performance.

**Step #4 - Qualitative Analysis**

Quantitative analysis is only useful if you know what is behind the numbers. In keeping with this philosophy, MSG concentrates their efforts evaluating the infrastructure and investment processes behind an investment manager's results. MSG evaluates such things as, but not limited to:

- Investment Philosophy & Process (stability)
- Professional staff continuity
- Portfolio Administration & Operations
- Attribution Analysis (Contributing factors to performance)

**Step #5 - The MSG Research Committee**

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To complement the first four steps, MSG provides an additional layer of due diligence and analysis in the form of the MSG Research Committee. The committee's decision-making process is as follows:

The analysts conducting detailed research on a particular investment manager presents their recommendation to the MSG Research Committee. Our analytical systems include, but are not limited to the following: Zephyr Associates, Informa M-Watch-M Search, Ibottson, Vestek and Morningstar. The Committee discusses the recommendation, probing and challenging as necessary to arrive at a final Committee conclusion. The Committee then decides where the investment manager should be placed. A majority vote of the voting members is needed for an investment manager to become available to our clients.

**Step #6 - Ongoing Research**

MSG performs ongoing research of investment managers. If we feel that the firm is materially weaker due to events such as the loss of key personnel, investment discipline deviation, and/or weak long-term performance, then the Research Committee may decide to remove the manager from the firm's internal manager roster. When entrusting the management of your assets to an investment manager, it is important to know that the Investment Consultants you employ strongly value continuity of people, investment philosophy and the decision-making process. Our research committee meets on-site with managers at least annually. Conference calls take place on a regular basis. Last year, the Manager Strategy Group conducted 993 due diligence meetings. Meetings are defined as on-site visits, off-site visits, office visits (home office) and conference calls.

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

The Institutional Consulting Group of Wells Fargo Advisors does not provide asset/liability studies. However, we do work with third party vendors that can provide such analysis under a separate agreement.

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

The Alpha Consulting Group, of Wells Fargo Advisors, under its standard suite of consulting services does provide educational services limited to investments. We offer pension committee or trustee education where needed or requested. In the case of 401(k) or 457 plans, we offer participant education services when and to the extent requested by the client. In either case, these services are covered under our consulting agreement for no additional cost to the client.

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

We believe, here, you are asking about asset classes, not just styles. In that case, the Institutional Consulting Group will prepare a strategic asset allocation study that will analyze various mixes of desired asset classes. An asset allocation model is used to generate "efficient portfolios" of varying risk levels. (An efficient portfolio is one that provides the highest rate of return for the degree of risk taken).

The first step in the asset allocation modeling process is to determine which asset classes (maximum and minimum exposure to each) are appropriate for investment in the portfolio, given their risk and return characteristics and restrictions established in the investment policy. For each asset class included in the study the Institutional Consulting Group will create an expectation of investment performance. Because the goal of strategic asset allocation is to create a long-term asset allocation policy for the fund, the expectations of investment performance should reflect a long-term investment horizon. Therefore the estimates of return and risk should be less sensitive to short-term market conditions, and actually normalize the performance relationship between each set of asset classes. Although the process is flexible enough to include different input, we recommend using the long-term historical return of market indices to represent the expected returns for asset classes.

Next, given the inputs of return risk and correlation combined with asset class constraints, we will develop a presentation that will compare several efficient portfolio mixes to the current portfolio mix. The presentation will evaluate the asset mixes in terms of expected return and expected risk necessary to achieve the expected returns. A series of screens will then be applied that identifies those asset mixes that meet certain return criteria. Examples of return criteria may be a minimum expected return or the probability of achieving the target return over the fund's investment horizon. Then mixes outside the risk tolerance may be eliminated.

The result will be an objective evaluation of various asset mixes, and a focus on the mix or mixes of asset classes that can be expected to meet your objectives and constraints.

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

Equity Styles – Three characteristics tend to explain most of the movement in the prices of common stocks. These are value (factors such as low p/e, low price/book, etc.), growth (factors such as high historical or expected growth of EPS, etc.) and size (market capitalization). In order to achieve proper diversification your aggregate portfolio should reflect all of these characteristics. However, to achieve optimal results, portfolio specialists should be retained to invest according to specific disciplines. Equity styles include: (among others)

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Large Cap Value	Large Cap Growth	Large Cap Core
Mid cap Value	Mid Cap Growth	Mid Cap Core
Small Cap Value	Small Cap Growth	Small Cap Core
International Equity	Emerging Markets	International Small Cap

**Fixed Income Styles** – Three characteristics tend to explain most of the movement in the prices of fixed income securities. These are maturity/duration, quality and sector. Fixed income styles include (among others):

Cash & Equivalents	Intermediate Bonds	International Bonds
Total Return Bonds	Mortgage Bonds	High Yield Bonds

**Alternative Investment Styles** – the use of non-traditional investment strategies has proven a useful complement to traditional foundation and endowment investments. The following alternative styles are available and researched by our firm:

Hedge Funds	Real Estate	Private Equity
Commodities	Specialty Funds	

Yes, we would like to work with the Pension Committee to, at least, consider several other asset classes where *alpha* can be captured without embracing significant additional risk.

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

Yes, we believe there should be targeted allocations to sub groups. At Wells Fargo Advisors, we believe that the old adage, "Don't put all your eggs in one basket," is particularly applicable to how investors should structure their portfolios to help minimize risk and reduce volatility. We can implement these words of wisdom using strategic asset allocation, a process in which a portfolio can be spread across various asset classes and styles including small-cap, mid-cap, large-cap, international, fixed income, growth, and value. The percentage invested in these asset classes is based on your individual goals, objectives, time horizon, and risk tolerance. Diversification through strategic asset allocation can help "smooth the bumps along the road" to your investment goals.

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

The appetite for such investments can often be identified through the Risk Posture Assessment process, as discussed earlier. Alternative investments may not be appropriate for all clients and would only be utilized if a client's risk tolerance and guidelines allowed.

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Wells Fargo Advisors has a dedicated Alternative Investments department, specializing in hedge funds, managed futures, exchange funds, venture capital/private equity, direct investments, and institutional money market funds available to our clients who wish to invest in such strategies.

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

When engaged in a consulting relationship, Wells Fargo Advisors does not actively manage client portfolios, rather as Investment Consultants we are entrusted by our client to hire, monitor and oversee outside managers who actively manage their account.

**11. Describe how you verify compliance with investment styles.**

The Alpha Consulting Group, with the quarterly InvestorForce performance report, verifies style compliance through the attribution analysis available with positions based reporting.

Reviewing the Investment Policy Statement on a regular basis with the Client is the best approach to monitoring adherence. We are dedicated to the development and annual review of the statement due to its importance to investment activities.

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

For total portfolio evaluation, we establish "blended" custom benchmarks for institutional clients, which incorporate the target weighting of assets represented in the portfolio. Index data is updated monthly and InvestorForce has capabilities that facilitate blended customized benchmarks, while ensuring historical data accuracy. InvestorForce software generates a comparison between investment managers and their relevant style benchmark as selected by MSG. We typically use benchmarks that are common to the industry such as the Russell, Lehman, and MSCI indices. We also can employ other indices as requested by the client.

MSG identifies the most appropriate index benchmarks for each investment manager. For example, if a manager invests in small companies, it would not be fitting to measure their performance against the S&P 500 (a broad index of larger companies). Rather, a more appropriate index would be the Russell 2000, which is used to gauge the performance of small cap managers. However, if a manager invests in small companies that are in an aggressive growth phase, then an index (i.e. Russell 2000 Growth) highly correlated with a portfolio of small-cap growth stocks would be appropriate.

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

For portfolio performance evaluation, manager style analysis and performance attribution analysis, we use the most advanced systems available, including Zephyr, Vestek, InvestorForce, Morningstar, and New Frontier Advisors. All of these systems and databases were purchased through an outside vendor. These reports are produced quarterly.

**InvestorForce**

Wells Fargo Advisors purchases a web based, securities based reporting system from Investor Force. The philosophy behind this system is to have data available daily on the securities level in order to prepare the most accurate and timely report possible. The performance report is prepared quarterly and provides both time and dollar weighted rates of return that are net of fees for the total fund and each manager. We create custom benchmarks for your fund which are used to measure your progress towards your investment objectives. While we focus on long-term results, we offer both short and long term performance analysis.

**Vestek**

We process a stringent quantitative analysis of performance on absolute, relative and risk-adjusted bases. Additionally, we evaluate manager performance over complete market cycles and consider rolling year analysis to identify consistencies or inconsistencies in manager results. To verify the performance calculation for each manager, we enter each transaction executed throughout the period and confirm ending market values.

**New Frontier Advisors--Resampled Efficient Frontier**

The asset allocation analysis employs an innovative new process called resampled efficiency. The Resampled Efficiency Frontier is the result of a technique that improves upon classical (Markowitz) Mean-Variance efficiency. Classical Mean Variance efficiency assumes 100% confidence in the optimization inputs whereas Resampled Efficiency provides portfolio optimizations that are consistent with an investor's perceived level of certainty. Through this process, performance is improved on average and portfolios have better diversification, more realistic estimation, and higher reward-to-risk ratios.

Optimizer calculates a number of simulated portfolios, which results in a range of efficient portfolios. Within this range of efficient portfolios the average of these portfolios is calculated. This becomes the Resampled Efficient Frontier.

**Morningstar:** Morningstar maintains data on mutual fund managers and funds. Morningstar allows the Institutional Consulting Group to sort through manager or fund databases utilizing commonly requested criteria. Morningstar offers a powerful search, allowing the Institutional Consulting Group to screen on hundreds of data points and providing well-defined results. All the screeners allow the Institutional Consulting Group to save search results as a Watch List, in case we would like to track the performance of these investment vehicles for a while before making a decision. Morningstar will also "Score"

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investment vehicles, creating a benchmark for our own analysis that ranks managers and funds that pass our test based on criteria that are important to us.

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

No.

**Research on Managers is Not Sold to Managers:** Our objectivity in the evaluation, analysis and selection of managers is dependent on eliminating any conflict of interest. Therefore, without exception, research on managers is available to and for the exclusive benefit of our clients. Research is neither available nor sold to any organization such as money managers.

**Managers Do Not Pay to be in Our Database:** Through our proprietary database and those databases we purchase, the Manager Strategy Group ("MSG") maintains data on over 1400 managers. Managers with over \$50 million in assets may apply to be included in the database. Each manager that applies must complete an extensive questionnaire detailing the facts of their firm. No fee is collected from the manager to be included in the database by MSG. No compensation is received from any manager to include them in the manager search process for a client.

**Managers are Not Sold Any Services:** There are no services provided to managers for a fee by Wells Fargo Advisors, LLC. We do not prepare performance reports for managers for them to use in marketing their services to the general public. Nor do we charge managers a fee to attend annual client educational meetings.

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

The due diligence process detailed above is the same process used to evaluate underperforming investment managers. From time to time, managers under-perform their benchmarks. When this happens, we carefully examine the root cause of the poor performance to determine whether style characteristics, security selection, or general market trends have caused the problem. We also scrutinize the managers process to ensure their compliance with their stated investment discipline. Should we notice a period of unexplained poor performance, we will contact the manager. Going forward, we closely

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monitor the manager's performance as well as the firm's ownership structure and professional turnover to ensure that performance rebounds relative to the benchmark. If we feel the manager has not corrected any controllable issues contributing to poor performance, we will formally recommend that the manager be reviewed and possibly replaced.

If we feel that the firm is materially weaker due to events such as the loss of key personnel, investment discipline deviation, and/or weak long-term performance, then the Manager Strategy Group may decide to remove the manager from the firm's internal manager roster. Such actions and the consultant's recommendations will be passed on to the client by the Alpha Consulting Group.

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

Placing and or removing a manager in an account relationship is usually dependent upon the dictates of the client's investment policy statement. Following, then, the process stated in the Policy the consultant would bring the manager in to meet with the Pension Committee for further discussions, clarifications and as an opportunity for the manager to explain its actions.

We would recommend termination of a manager under the following circumstances:

- Significant change of the firm in terms of ownership, personnel, or any other business related functions.
- A change of investment style or discipline
- A lack of responsiveness to the trustees' requirements
- Violation of stated objectives and guidelines
- Inability to achieve stated investment objectives and goals over a predetermined time period
- Unacceptable justification for poor results
- A change of managers is determined to be beneficial to the fund

We recommend that grounds for probation and termination should be clearly stated in the investment policy statement of the fund, so the process of manager termination may be as objective as possible.

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

Yes. Managers normally do not hold the assets they manage. The assets are generally custodied at a bank, trust company or brokerage firm. Each of these types of institutions normally open a separate account for each of the managers that you hire. The assets (either cash or securities) that are available for management by each manager are deposited to the appropriate accounts.

If the assets are held at Wells Fargo Advisors, we will facilitate the movement of assets (either cash or securities) between the accounts as you so direct. For your plan this will be done by the Alpha Consulting Group in Fort Worth, Texas.

If the assets are held at some other custodian, they will be responsible for transferring assets between accounts as you so direct.

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

We have consistently added value to institutional client's portfolios with the following processes:

- Risk Posture Assessments

The first step toward the addition of value

- Asset Allocation

Perhaps the largest lever influencing long-term returns

- Manager Selection

The second most significant factor influencing long-term returns

- Optimizing synergies between selected managers

Complimentary managers add significant long-term value to returns.

- Advising as to policy guideline decisions

Insuring appropriate guidelines are in place reflecting realistic goals

- Trustee Education

Informed Trustees make better decisions

- Compliance Monitoring

Quarterly monitoring of policy guidelines insures that the policy is enforced and actionable.

- Plan Expense Monitoring

Done quarterly to insure efficiently-run and cost-effective portfolio management.

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

2007; City of Amarillo 457 Plan, \$28,000,000; public sector savings plan

2007; Covalence Specialty Materials Corp.; manufacturing private sector defined contribution plan; approx. \$130,000,000

2007; LeClairRyan LLC.; law firm retirement plans: 401(k) and SERP; approx. \$70,000,000

2008; BEPCO; Bass Thrift 401(k) Plan; private sector; approx. \$70,000,000

2008; Kelly Hart & Hallman, LLC.; private sector law firm defined contribution plan; approx. \$35,000,000

2008; Allison Transmission Inc.; manufacturing, union and non-union, private sector defined benefit plans and defined contribution plans; approx. \$150,000,000 in all four Plans

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

2007 – Covance Specialty Materials Corp.; manufacturing private sector defined contribution plan; approx. \$130,000,000; we only worked with this client for about 6 months when the corporation was sold to another company and its Plan and assets were combined with the new owner's existing Plan

2009 -- NCH Corporation, 401(k) Plan; private sector manufacturing and distributing company; approx. \$150,000,000 in assets; no reason was given.

**C. Your Team**

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

Roy Browning and Kelly Bevis of the Alpha Consulting in Fort Worth, Texas, will serve as the Lead Consultants to the Port of Houston Authority assisted by their support personnel. The Institutional Consulting and Manager Strategy Groups in St. Louis, MO, are departments in the home office of Wells Fargo Advisors that support and enable all investment consulting services.

Institutional Consulting of the Advisory Products Group is comprised of four senior consultants and seven analysts; one of whom, in conjunction with the Alpha Consulting Group, will be responsible for creating the Authority's performance reports.

Roy Browning and Kelly Bevis will be responsible for maintaining the relationship with the Investment Committee, creating and delivering the quarterly performance reports, asset allocation reports and investment policy compliance. Alpha Consulting will craft an investment policy, will assist in asset allocation and manager selection for the Port of Houston Authority. They will be directly involved in the creation of analysis provided to Committee, but will also work in conjunction with the Institutional Consulting Group and the Manager Strategy Group, located in St. Louis, Missouri, in advising the Authority.

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

**Primary Contacts – Fort Worth, Texas**

**The Alpha Consulting Group:**

The Alpha Consulting Group is staffed by 3 Senior Institutional Consultants listed below. Roy Browning and Kelly Bevis will be the Co-Lead Consultants on the Port of Houston Authority account. Jeff Rakes, who works with Alpha Consulting in a supporting role, will be

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of great use directing implementation of the Risk Posture Assessment and Asset Allocation Analyses.

Roy Browning, Jr., CIMA, Senior Institutional Consultant and Senior Vice President – Investments of Wells Fargo Advisors: Mr. Browning has over thirty years of investment consulting experience with Bache & Company and Prudential Securities prior to Wells Fargo Advisors. Roy graduated with a B.B.A. from Southern Methodist University, and earned his Certified Investment Management Analyst (CIMA) designation in conjunction with The Wharton School. He is a Managing Partner of the Alpha Consulting Group, headquartered in Fort Worth, Texas.

Kelly A. Bevis, CIMA, Senior Investment Management Consultant of Wells Fargo Advisors: Ms. Bevis, prior to Wells Fargo Advisors, worked at Fidelity Investments and was a Financial Advisor (FA) at Prudential Securities. Kelly graduated with a B.B.A. from the University of Alabama and earned her Certified Investment Management Analyst (CIMA) designation in conjunction with The Wharton School. She boasts 13 years of experience in investments and is a Managing Partner of the Alpha Consulting Group, headquartered in Fort Worth, Texas.

Jeffrey E. Rakes, CIMA, CIS, Senior Institutional Consultant: Mr. Rakes is a Senior Consultant with Wells Fargo Advisors, has over 24 years experience in institutional consulting, investment research, and corporate finance. Jeff graduated with a B.S. from Roanoke College and earned his Certified Investment Management Analyst (CIMA) designation in conjunction with The Wharton School. He was also awarded the Certified Investment Strategist (CIS) designation in conjunction with the Stern School of Business, New York University in 2002.

**Home Office Support- Institutional Consulting Group**

**Wayne Morris SVP, CIMA, Director of Institutional Consulting Services:** Mr. Morris has over twenty-five years of experience providing investment consulting services to institutions including foundations, endowments and retirement plans. He has an additional ten years of experience as a pension and group insurance administrator. Prior to coming to Wells Fargo Advisors Mr. Morris spent three years as the Director of Institutional sales for Smith Barney's Consulting Group. He was in charge of all the managed products at UBS Securities prior to Smith-Barney. He also served four years as the Executive Vice President for all managed products at EVEREN Securities. Prior to EVEREN Securities Mr. Morris was a Senior Vice President at Systematic Financial, an investment advisor in Fort Lee, New Jersey. He also served ten years as a regional consultant for two major brokerage firms. Before that he was the Director of Employee Benefits for a national transportation firm and served on the boards of Taft Hartley and Corporate Retirement Plans.

**Terry Czerniewski, First Vice President, Senior Institutional Consultant:** Mr. Czerniewski is a First Vice President and Senior Institutional Consultant with Wells Fargo Advisors. Mr. Czerniewski has over 25 years industry experience and was responsible for the development of the Institutional Consulting Services program at A.G. Edwards & Sons,

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Inc., prior to joining Wells Fargo Advisors. He is currently responsible for business development and works with financial consultants and their institutional clients to help meet their investment management responsibilities. He works primarily with endowments, foundations, and retirement plan sponsors to develop Investment Policy Statements, create appropriate asset allocation strategies, and search for and evaluate investment advisers. He attended Webster University and is Series 7, 9, 10, 24, 63 and 66 licensed.

**Matthew Harms, Vice President:** Mr. Harms is an Assistant Vice President with Wells Fargo Advisors, and has previously worked with separately managed accounts, investment research, trading, and marketing. Mr. Harms joined the Institutional Consulting Group in 2008 and is responsible for servicing the firm's institutional clients. Prior to joining Wells Fargo Advisors, Mr. Harms ran the day-to-day trading, performance reporting, and operations for an independent broker-dealer's managed account platform. Mr. Harms received a Bachelor of Science degree in economics from Truman State University. He is Series 7 and 24 licensed.

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

While Wells Fargo Advisors maintains relationships with numerous clients to provide defined contribution and defined benefit plans, it is our policy to protect the confidentiality of all our client relationships. As a result, we do not provide clients' names in the normal course of business. We will provide references upon notification that we are a finalist under consideration.

**4. Describe the qualifications of the team members.**

The Alpha Consulting Group, with Mr. Jeff Rakes in an advisory role, boasts over **sixty-five years** of combined consulting experience between the three professionals. Each are certified under the Investment Management Consultants Association CIMA program through the Wharton Graduate School of Business at University of Pennsylvania. Each are registered under the Investment Advisors Act of 1940. Investment consulting is our only business.

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

Yes. Wells Fargo Advisors recognizes its role as fiduciary under ERISA's Section 3(21)(A) and evidences that fact in writing as part of our Consulting Agreement. As such, each member of the team would provide continuous attention to the fiduciary responsibilities shared by the board members of the Port of Houston Authority and our firm.

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

Preparing, reviewing and recommending changes to investment policies, guidelines and objectives is our stock-in-trade; it is what we do. Our experience is wide; we are a team of three consultants supported by one of the most important, third-party, investment management consulting organizations in the U.S. We are deep, as well: the team, Alpha Consulting, boasts a combined 65 years of consulting experience with clients just like the Port of Houston.

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

Each quarter we, along with each of the Pension Committee members, complete a schedule found at the end of our performance report called, the *Final Analysis*. The *Final Analysis* ties the investment results required in the Policy to those that we have found in the report. It also forces us to look at other issues such as allocation among asset classes and among investment managers as well as the back-drop of the investment markets for the reporting period.

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

No. When engaged in a consulting relationship, Wells Fargo Advisors does not actively manage client portfolios, rather as Investment Consultants we are entrusted by our client to hire, monitor and oversee outside managers who actively manage their account. Our responsibility as fiduciaries is to ensure that managers are prudently investing the client's money in a way that complements the client's investment needs and objectives.

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

A consultant's performance should be measured against several standards:

1. Their attention to the objectives stated in the Plan's investment policy statement.
2. Their effectiveness in aiding the Plan in achieving its goals.
3. Their knowledge of capital markets and the value that various investment vehicles can bring to management of plan assets.
4. Their ability to respond quickly and accurately to requests from the board of trustees.
5. Their ability to articulate effectively to a board on the issues affecting the performance of the Plan's assets.
6. Their consultant's adherence to the highest standards of business ethics.
7. Do they listen?

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

Each quarter the Alpha Consulting Group will present to the Pension Committee our performance evaluation report. This report is compiled and constructed in our home office by the Institutional Consulting Services Group using the InvestorForce system and is taken electronically from the client's custodial statements. The returns calculated in the report are then verified with each of the managers to insure accuracy.

All of the efforts of a good consulting process are meaningless if clients are provided with inadequate records and poor communication of results. Our quarterly performance monitor includes all information necessary for us to fulfill our responsibilities as a fiduciary and to provide the other fiduciaries with a report that is presented in a logical and concise format. Our report includes the following components:

- Capital Markets Review: Provides an overview of the economy and the capital market environment for the preceding quarter as well year-to-date, and longer-term periods.
- Executive Performance Summary: Includes portfolio level performance compared to custom and absolute benchmarks as well as manager level performance compared to style specific benchmarks across all applicable time periods.
- Asset Allocation Summary: Illustrates comparison of the target policy allocation and the actual portfolio allocation at the current quarter end date.
- Manager Level Performance Attribution and Analysis: Includes portfolio characteristics data as well as holdings based industry sector and security concentration analysis.

Please refer to the sample performance report enclosed.

**11. How do you propose that the Pension Committee measure and evaluate the performance of the investment managers?**

Measuring and evaluating a manager in an account relationship is dependent upon the criteria outlined in the client's investment policy. The managers performance is brought to light during the presentation of the Portfolio Advisor performance report.

**12. Describe the materials to be used for performance evaluation of investment managers and how that material will be prepared. Describe any quality controls in place to ensure the integrity of the information provided.**

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Wells Fargo Advisors purchases a web based, securities based reporting system from Investor Force. The philosophy behind this system is to have data available daily on the securities level in order to prepare the most accurate and timely report possible. The performance report is prepared quarterly and provides both time and dollar weighted rates of return that are net of fees for the total fund and each manager. We create custom benchmarks for your fund which are used to measure your progress towards your investment objectives. While we focus on long-term results, we offer both short and long term performance analysis.

This report is compiled and constructed in our home office by the Institutional Consulting Services Group using the InvestorForce system and is taken electronically from the client's custodial statements. The returns calculated in the report are then verified with each of the managers to insure accuracy.

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

While Wells Fargo Advisors maintains relationships with numerous clients to provide defined contribution and defined benefit plans, it is our policy to protect the confidentiality of all our client relationships. As a result, we do not provide client information in the normal course of business. We will provide references upon notification that we are a finalist under consideration.

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

No.

**Research on Managers is Not Sold to Managers:** Our objectivity in the evaluation, analysis and selection of managers is dependent on eliminating any conflict of interest. Therefore, without exception, research on managers is available to and for the exclusive benefit of our clients. Research is neither available nor sold to any organization such as money managers.

**Managers Do Not Pay to be in Our Database:** Through our proprietary database and those databases we purchase, the Manager Strategy Group ("MSG") maintains data on over 1400 managers. Managers with over \$50 million in assets may apply to be included in the database. Each manager that applies must complete an extensive questionnaire detailing the facts of their firm. No fee is collected from the manager to be included in the database by MSG. No compensation is received from any manager to include them in the manager search process for a client.

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**Managers are Not Sold Any Services:** There are no services provided to managers for a fee by Wells Fargo Advisors, LLC. We do not prepare performance reports for managers for them to use in marketing their services to the general public. Nor do we charge managers a fee to attend annual client educational meetings.

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

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

**Please elaborate on any yes answers to the above questions.**

In regards to the Alpha Consulting Group and the Institutional Consulting Group and each of their members, none of the above has occurred.

**D. Your Fees:**

Please find in enclosed envelope.

**E. Our form contract is attached as Exhibit A. Please review it carefully.**

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

**Mr. Dean Frigo**

**Assistant City Manager for Financial Services**

**City of Amarillo, Texas**

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**Amarillo, TX**

**(806) 378 3040**

**Mr. Steve Pratt,**

**Vice President – Finance**

**Alfa Laval, Inc.**

**Richmond, VA**

**(804) 545 8122**

**Mr. Brian Kennell**

**Vice President – Finance**

**Tetra Pak, Inc.**

**Vernon Hills, IL**

**(847) 955 6677**

**G. Any other information you wish to provide.**

***Alpha Consulting Group Profile***

- **The Beginning:** Formed in 1999 by Roy Browning and Kelly Bevis, the Alpha Consulting Group is a service boutique inside of Wells Fargo Advisors.
- **Our Purpose:** Alpha provides third-party, objective and independent advice to institutional clients in the eastern half of the country.
- **Our Clients:** Alpha serves a select group of corporately sponsored ERISA funds, non-qualified plans, municipal retirement plans and charitable foundations.
- **The Team:** Alpha's three consultants, Roy Browning, Kelly Bevis and Jeffrey Rakes, are all Senior Institutional Consultants, registered under the Investment Advisors Act of 1940 and are accredited as Certified Investment Management Analysts (CIMA) through the Wharton School program created with the Investment Management Consultants Association (IMCA).

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- **Experience and Depth:** Browning, Bevis and Rakes have a combined 60+ years of consulting service to ERISA clients.
- **Our Promise:** Alpha Consulting and Wells Fargo Advisors acknowledge in writing our fiduciary status in working with the trustees of the Plan, limited to the Plan investments and the advice we offer in that regard.

Thanks,

Roy Browning Jr.

Kelly Lewis

12/04/2009