

REQUEST FOR PROPOSALS

FOR

**INVESTMENT MANAGEMENT SERVICES FOR
THE BOARD OF TRUSTEES OF THE
HAMPTON EMPLOYEES' RETIREMENT PLAN**

RFP ITEM # 11-355439/D

COMMODITY: Investment Management Services NIGP CODE: 946-56



City of Hampton

RESPONSE FROM

**Graystone
ConsultingSM**

July 26, 2011



REQUEST FOR PROPOSALS

City of Hampton
ISSUING OFFICE:

DATE: June 28, 2011

RFP ITEM NO. 11-355439/D
PROCUREMENT OFFICER Doris McRae, CPPB Senior Buyer
CLOSING DATE July 19, 2011
CLOSING TIME 3:00 P.M. EST
PREPROPOSAL CONFERENCE NONMANDATORY DATE: N/A TIME:

Consolidated Procurement Div.
1 Franklin Street, Suite 345
HAMPTON, VA 23669
TELEPHONE: (757) 727-2200
FAX: (757) 727-2207
Hours: 8:00 a.m.-4:30 p.m.

Attention of Offeror is Directed To Section
2.2-4367 to 2.2-4377 Code of Virginia
(Ethics In Public Contracting)

SEALED PROPOSALS will be received in the Issuing Office above until Closing Date and Closing Time as specified in this solicitation including any addenda issued by this office. The City of Hampton is not responsible for late delivery by U.S. Postal mail or other couriers. All inquiries for information regarding this Request for Proposal are to be directed to the Issuing Office as defined herein.

COMMODITY: Investment Management Services NIGP CODE: 946-56

PLEASE FILL IN OFFEROR'S NAME & ADDRESS
IN THE SPACES PROVIDED BELOW:

THIS IS NOT AN ORDER

GRAYSTONE CONSULTING
101 EAST BYRD STREET, Suite 2000
RICHMOND, VA 23219-4068

THE CITY OF HAMPTON, HEREAFTER REFERRED TO AS "THE CITY", RESERVES THE RIGHT TO ACCEPT OR REJECT ANY AND ALL PROPOSALS IN WHOLE OR IN PART AND WAIVE ANY INFORMALITIES IN THE COMPETITIVE NEGOTIATIONS PROCESS. FURTHER, THE CITY RESERVES THE RIGHT TO ENTER INTO ANY CONTRACT DEEMED TO BE IN ITS BEST INTEREST. THE ENTIRE CONTENTS OF THE REQUEST FOR PROPOSALS, ANY ADDENDA, OFFEROR'S PROPOSAL AND NEGOTIATED CHANGES SHALL BE INCORPORATED BY REFERENCE INTO ANY RESULTING CONTRACT.

THE CITY OF HAMPTON DOES NOT DISCRIMINATE AGAINST FAITH-BASED ORGANIZATIONS.

The City of Hampton Employees' Retirement System is seeking proposals from qualified Offerors to provide Independent Investment Advisory/Consultant Services.

ACKNOWLEDGE RECEIPT OF ADDENDUM: #1 for #2 ___ #3 ___ #4 ___ (Please Initial)

THE CITY OF HAMPTON CANNOT LEGALLY AGREE TO ANY CLAUSE INDEMNIFYING THE CONTRACTOR FROM ANY DAMAGES ARISING OUT OF THE CONTRACT/AGREEMENT/LEASE OR HOLDING THE CONTRACTOR HARMLESS. THE SUBMISSION OF A BID OR A PROPOSAL CONSTITUTES AN AGREEMENT BY THE CONTRACTOR NOT TO REQUEST SUCH LANGUAGE IN THE RESULTING CONTRACT. IN COMPLIANCE WITH THIS SOLICITATION AND TO ALL THE CONDITIONS IMPOSED HEREIN, THE UNDERSIGNED AGREES TO PERFORM ANY CONTRACT AWARDED AS A RESULT OF THIS SOLICITATION. THE FOLLOWING SECTION SHALL BE SIGNED BY AN AGENT AUTHORIZED TO BIND THE COMPANY. FAILURE TO EXECUTE THIS PORTION MAY RESULT IN PROPOSAL REJECTION.

Authorized Agent:

S. CRAIG DUNBAR
mssb.com

Email Address

ENCLOSURES

[Signature]
Signature

804-780-3395

Telephone Number

804-225-8145

Fax Number

S. CRAIG DUNBAR

Type or Print Name

26-4310632

Company FEI/FIN#

ANTI-COLLUSION/NONDISCRIMINATION/DRUG-FREE WORKPLACE REQUIREMENTS

ANTI-COLLUSION CLAUSE:

IN THE PREPARATION AND SUBMISSION OF THIS PROPOSAL, SAID OFFEROR DID NOT EITHER DIRECTLY OR INDIRECTLY ENTER INTO ANY COMBINATION OR ARRANGEMENT WITH ANY PERSON, FIRM OR CORPORATION, OR ENTER INTO ANY AGREEMENT, PARTICIPATE IN ANY COLLUSION, OR OTHERWISE TAKE ANY ACTION IN VIOLATION OF THE SHERMAN ACT (15 U.S.C. SECTION 1), SECTIONS 59.1-9.1 THROUGH 59.1-9.17 OR SECTIONS 59.1-68.6 THROUGH 59.1-68.8 OF THE CODE OF VIRGINIA.

THE UNDERSIGNED OFFEROR HEREBY CERTIFIES THAT THIS AGREEMENT, OR ANY CLAIMS RESULTING THEREFROM, IS NOT THE RESULT OF, OR AFFECTED BY, ANY ACT OF COLLUSION WITH, OR ANY ACT OF, ANOTHER PERSON OR PERSONS, FIRM OR CORPORATION ENGAGED IN THE SAME LINE OF BUSINESS OR COMMERCE; AND, THAT NO PERSON ACTING FOR, OR EMPLOYED BY, CITY HAS AN INTEREST IN, OR IS CONCERNED WITH, THIS PROPOSAL; AND, THAT NO PERSON OR PERSONS, FIRM OR CORPORATION OTHER THAN THE UNDERSIGNED, HAVE, OR ARE, INTERESTED IN THIS PROPOSAL.

DRUG-FREE WORKPLACE:

DURING THE PERFORMANCE OF THIS CONTRACT, THE CONTRACTOR AGREES TO (I) PROVIDE A DRUG-FREE WORKPLACE FOR THE CONTRACTOR'S EMPLOYEES; (II) POST IN CONSPICUOUS PLACES, AVAILABLE TO EMPLOYEES AND APPLICANTS FOR EMPLOYMENT, A STATEMENT NOTIFYING EMPLOYEES THAT THE UNLAWFUL MANUFACTURE, SALE, DISTRIBUTION, DISPENSATION, POSSESSION, OR USE OF A CONTROLLED SUBSTANCE OR MARIJUANA IS PROHIBITED IN THE CONTRACTOR'S WORKPLACE AND SPECIFYING THE ACTIONS THAT WILL BE TAKEN AGAINST EMPLOYEES FOR VIOLATIONS OF SUCH PROHIBITION; (III) STATE IN ALL SOLICITATIONS OR ADVERTISEMENTS FOR EMPLOYEES PLACED BY OR ON BEHALF OF THE CONTRACTOR THAT THE CONTRACTOR MAINTAINS A DRUG-FREE WORKPLACE; AND (IV) INCLUDE THE PROVISIONS OF THE FOREGOING CLAUSES IN EVERY SUBCONTRACT OR PURCHASE ORDER OF OVER \$10,000, SO THAT THE PROVISIONS WILL BE BINDING UPON EACH SUBCONTRACTOR OR VENDOR.

FOR THE PURPOSE OF THIS SECTION, "DRUG-FREE WORKPLACE" MEANS A SITE FOR THE PERFORMANCE OR WORK DONE IN CONNECTION WITH A SPECIFIC CONTRACT AWARDED TO A CONTRACTOR IN ACCORDANCE WITH FEDERAL LAW, THE EMPLOYEES OF WHOM ARE PROHIBITED FROM ENGAGING IN THE UNLAWFUL MANUFACTURE, SALE, DISTRIBUTION, DISPENSATION, POSSESSION OR USE OF ANY CONTROLLED SUBSTANCE OR MARIJUANA DURING THE PERFORMANCE OF THE CONTRACT.

EMPLOYMENT DISCRIMINATION BY THE SUCCESSFUL OFFEROR SHALL BE PROHIBITED:

1. DURING THE PERFORMANCE OF THIS CONTRACT, THE CONTRACTOR AGREES AS FOLLOWS:

- a. THE OFFEROR, SHALL NOT DISCRIMINATE AGAINST ANY EMPLOYEE OR APPLICANT FOR EMPLOYMENT BECAUSE OF RACE, RELIGION, COLOR, SEX, NATIONAL ORIGIN, AGE, DISABILITY, OR ANY OTHER BASIS PROHIBITED BY STATE LAW RELATING TO DISCRIMINATION IN EMPLOYMENT, EXCEPT WHERE THERE IS A BONA FIDE OCCUPATIONAL QUALIFICATION REASONABLY NECESSARY TO THE NORMAL OPERATION OF THE CONTRACTOR. THE CONTRACTOR AGREES TO POST IN CONSPICUOUS PLACES, AVAILABLE TO EMPLOYEES AND APPLICANTS FOR EMPLOYMENT, NOTICES SETTING FORTH THE PROVISIONS OF THIS NONDISCRIMINATION CLAUSE.
- b. THE CONTRACTOR, IN ALL SOLICITATIONS OR ADVERTISEMENTS FOR EMPLOYEES PLACED BY OR ON BEHALF OF THE CONTRACTOR, SHALL STATE THAT SUCH CONTRACTOR IS AN EQUAL OPPORTUNITY EMPLOYER.
- c. NOTICES, ADVERTISEMENTS, AND SOLICITATIONS PLACED IN ACCORDANCE WITH FEDERAL LAW, RULE OR REGULATION SHALL BE DEEMED SUFFICIENT FOR THE PURPOSE OF MEETING THE REQUIREMENTS OF THIS SECTION.

2. THE CONTRACTOR WILL INCLUDE THE PROVISIONS OF THE FOREGOING PARAGRAPHS A, B, AND C IN EVERY SUBCONTRACT OR PURCHASE ORDER OF OVER \$10,000, SO THAT THE PROVISIONS WILL BE BINDING UPON EACH SUBCONTRACTOR OR VENDOR.

Name and Address of OFFEROR:

Date: July 22, 2011 Authorized Signature: [Signature]

Printed Name: S. CRAIG DUNBAR Title: FIRST VICE PRESIDENT

Phone Number: 804 780-3395 Fax Number: 804-225-8145

Email Address: S.craig.dunbar@morganstanleygrainstone.com

Federal Tax Identification Number/Social Security Number: 26-4310632

Is Offeror a "minority" business? Yes ☒ No

If yes, please indicate the "minority" classification below:

African American ☐ Hispanic American ☐

American Indian ☐ Eskimo ☐ Asian American ☐ Aleut ☐ Other; Please Explain:

Is Offeror Woman Owned? Yes ☒ No

Is Offeror a Small Business? Yes ☒ No

Is Offeror a Faith-Based Organization? Yes ☐ No ☒



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ADDENDA

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LETTER OF TRANSMITTAL

The Board of Trustees ("Board") of the Hampton Employees' Retirement Plan of the City of Hampton, Virginia ("Plan") is seeking competitive proposals from qualified firms/persons who shall perform independent investment advisory/consultant services in accordance with all terms, conditions and specifications as set out in the Request for Proposals (RFP).

As of May 31, 2011, the Plan had total assets of approximately \$118 million at cost and over \$131.5 million at market value. The Plan assets are primarily invested in four Index funds with Vanguard Institutional Services with an allocation of approximately 65% to equity and 35% to fixed income. The Plan had 2590 retirees/payees receiving over \$1.3 million in monthly benefits.

The independent investment advisory/consultant firm ("Firm") or persons will serve a key role in the oversight of investment activity through the review of investment processes, performance and risk exposure in order to enhance due diligence performed by the Plan's board of Trustees. The Firm will: examine the Plan's Investment Policy and financial data, monitor investment activity, and measure investment performance and risk with consideration of "value added" measures. The Firm shall provide such services through the use of widely accepted, industry recognized, concepts, methods and quantitative analytical techniques.

More specifically, the Graystone Consulting shall:

1. review the Plan's Investment Policy, processes and objectives with respect to current market conditions and provide recommendations for revisions.
2. review investment performance data, financial asset allocation and activities and shall report to the Board and Plan staff any deviation from current Investment Policy and/or standard practices as approved by the Board.
3. attend Board meetings quarterly and present reports that detail an independent assessment of the Plan's investment earnings, rate-of-return and risk, relative to current market conditions and industry accepted benchmarks.
4. provide strategies for enhancing investment portfolio performance while adhering to the Plan's Investment Policy and cash flow needs.
5. review Plan and staff operations and procedures to evaluate the appropriate safekeeping of Plan assets.
6. provide training for staff, the Board and/or City Management on relevant investment management subjects and updates to applicable guidelines and regulations.
7. ensure that all investment advice provided complies with all state and federal laws and policies of the City.

Graystone Consulting represents that we satisfy the following criteria:

1. Graystone is an RIA in the Commonwealth of Virginia
2. Graystone Consulting has experience performing related services for other public retirement systems and corporate pension plans of comparable size and larger.



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3. Graystone is a separate business of Morgan Stanley Smith Barney focused exclusively on institutional investment consulting and advisory. We will fully and continuously disclose the updated status and any changes thereto, which are relevant to the City of Hampton.
4. Graystone Consulting has a number of distinguishing capabilities and services which go beyond meeting the general and specific requirements and representations stated previously in this RFP.

Experience, Stability & Tenure of Consultants—The experience and recognized expertise of the Graystone Virginia practice consultants, Kent Cox and Craig Dunbar. Both Kent and Craig have nearly 25 years experience each in the financial service industry, advising corporate and municipal retirement plans, foundations and endowments. The Graystone Virginia practice has been recognized for five consecutive years by Barron's magazine as one of America's top investment advisory practices (Barron's, February 22, 2010). The Graystone Virginia practice has also been recognized in 2006, 2007, 2008, 2010 as one of Virginia's top financial advisory practices by Virginia Business magazine, June 2010.

Kent and Craig have attained a number of certifications which insure they are on the leading edge in investment consulting. Both Kent and Craig have achieved the Accredited Investment Fiduciary certification from FI360, The Fiduciary Institute. Kent attained the Certified Investment Management Analyst (CIMA) accreditation from the Wharton School of Business, University of Pennsylvania. The CIMA requires 40 hours continuing education biannually to remain certified. Craig has attained the Chartered Retirement Plan Specialist (CRPS) and Certified Financial Planning (CFP) accreditations which also require significant annual continuing education.

Graystone, an Industry Leader—As a firm, Graystone Consulting provides a robust platform of consulting advice and services recognized as best in class in the industry. It is ranked 2nd in the nation by number of Foundation and Endowment clients, according to Plan Sponsor Magazine, September 2010. In the same issue of Plan Sponsor Magazine, Graystone Consulting/Consulting Group was ranked as #1 in the U.S. by number of defined benefit plan clients. Separately, Greenwich Associates has ranked our two most important services, asset allocation and manager selection as best in the industry. These rankings are supported by one of the largest research departments in the industry, with over 70 professionals dedicated to asset allocation and investment manager selection.

The Alternative Investment Leader—Our experience and expertise in alternative investments is unparalleled. Dating back to the 1970s our parent companies have been two of the largest investors and research providers in the alternative investments industry. Through that experience, Graystone Consulting has developed one of the industry's largest platforms, with access and research to the industry's top performers.

Independence & Objectivity—Graystone is designed to work only for its clients. The design of our organization, investment perspective and revenue model is entirely constructed to provide advice in the sole best interest of our clients.

Investment Manager Due Diligence – We are consistently recognized as having the most comprehensive due diligence effort in the industry.



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PLAN CONSULTANTS

Provide information regarding the main corporate office and indicate which office(s) would serve the Plan. Identify the key personnel who will be assigned to the engagement including biographies and experience of the individuals, especially their experience with public sector investment advising.

Main Corporate Office:

Graystone Consulting, a business of
Morgan Stanley Smith Barney, LLC
2000 Westchester Ave
Purchase, NY 10577
914-225-6961 phone

Servicing Office:

Graystone Consulting
901 East Byrd Street, Suite 2000
Richmond, VA 23219-4068
804-780-3300 phone
804-225-8145 fax

Primary Consultants:

Kent Cox, CIMA®, AIF

Director – Institutional Consulting
901 East Byrd Street, Suite 2000
Richmond, VA 23219
804-780-3324 direct
804-225-8145 fax
kent.cox@morganstanleygraystone.com

Kent Cox is the director and co-founder of the Graystone's Virginia practice, which has been recognized as one of America's top financial advisory practices in Barron's, February 2010, and one of Virginia's leading financial advisory practices for four consecutive years by Virginia Business Magazine. Kent is a founding member of Graystone Consulting, a specialized unit focused on providing investment solutions for institutional investors, family offices, and private clients. The Virginia practice presently serves 18 institutional clients ranging in size from \$10 to \$325 million.

Kent is primarily responsible for strategic portfolio construction, asset allocation, investment policy development, and research on traditional and alternative investments. Active in the two most



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respected investment consulting associations, the Association of Professional Investment Consultants (APIC) and the Investment Management Consultants Association (IMCA), Kent served

as chairman of APIC's Investment Research Committee. He received the distinguished Certified 14 Investment Management Analyst (CIMA) designation from the Wharton School of Business at the University of Pennsylvania, and has a B.S. in Finance/Business Administration from Virginia Commonwealth University.

Kent is active in the Richmond, VA community, currently serving on the Board of Trustees for the Virginia Commonwealth University School of Business Foundation, and Chairman of the Shady Grove United Methodist Church Endowment Fund. Kent has served on the board of directors of Make-A-Wish Foundation, the Board of Governors of The Dominion Club, and the Board of Directors of the Richmond Strikers.

Kent lives in Glen Allen, VA with his wife Robin and three children.

Craig Dunbar, CRPS®, CFP®, AIF

Senior Investment Management Consultant

901 East Byrd Street, Suite 2000

Richmond, VA 23219

804-780-3395 direct

804-225-8145 fax

s.craig.dunbar@morganstanleygraystone.com

Craig is the chief operating officer for the Graystone's Virginia practice. As the chief operating officer, he is responsible for managing the staff as well as the team's workflow. He works in conjunction with Kent Cox to assist in the coordination and implementation of all consulting projects, tasks and advice for all institutional clients.

He graduated from James Madison University in 1988 with a B.B.A. in Finance. Craig was employed for 13 years at Crestar Securities where he was a leader in the Corporate Fixed Income Department. He joined Smith Barney in 1999 as a Vice President. He co-founded the Graystone's Virginia practice in 2000.

Craig has served on boards in the Richmond Metro area. He is the current Finance Chairman and Treasurer, and served as the Chairman of Board for Trinity Episcopal High School. He has been a board member since 1994. He has also served as a board member of St. Michael's Episcopal School Foundation since 2003.

He lives in Midlothian, VA with his wife Slater, and three children.



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Ronald B. Ramos
Investment Consultant
901 East Byrd Street, Suite 2000
Richmond, VA 23219
804-780-3359 direct
804-225-8145 fax
ronald.ramos@morganstanleygraystone.com

Ronnie recently joined the Richmond, VA practice of Graystone Consulting after a 20-year career in the banking and insurance industry, serving most recently as Senior Vice President and Treasurer of a Fortune 500 insurance company. Ronnie had primary responsibility for management and oversight of a \$400+ million 401k Plan, \$225+ million Pension Plan and a \$750+ million investment portfolio supporting the reserves and surplus of the insurance company. Key areas of responsibility included plan design, asset allocation review/analysis, investment manager selection, investment performance analysis and conducting quarterly Investment Committee meetings.

Ronnie serves on the Board of Directors of Centennial Bank in Fountain Valley, CA, a state chartered bank with over \$700 million in assets. He is also active in the local community, currently serving on the Finance and Investment Committees of the United Way of Central Virginia, as well as the Board of Directors of Huguenot Little League. He has also served on the Boards of Virginia Local Initiatives Support Corporation (LISC), Glen Allen Cultural Arts Center and the Richmond Sportsbackers.

Ronnie lives in Midlothian, VA with his wife and two children.

Supporting Personnel

James Walker
Executive Vice President
Director of Investment Advisory Services

In September 2010, Mr. Walker was appointed as the Director of Investment Advisory Service to succeed James Tracy, who moved onto another role within the firm. Prior to accepting this appointment, he served as the Chief Operating Officer for Investment Products and Markets (IPM) for Morgan Stanley Smith Barney. In this role, he plays a key strategy, leadership and coordination role for the MSSB products business, working closely with all the business units within IPM: Capital Markets, Consulting Group, Investment Strategy and Research, Investment Products and Alternative Investments. The businesses in these units build platforms, source investment products



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and managers, and create research content for MSSB's 18,000+ Financial Advisors. In this role he has direct responsibility for Strategic Relationships, Risk Management, Investment Research

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Delivery, Business Development and Strategy. Development of IPM's business strategy, structure, integration and acquisitions/divestitures are a central to his current role. In 2008, he led the development and launch of Smith Barney's Unified Managed Account which included leading the acquisition of Legg Mason's Private Portfolio Group, a key component of the UMA offering. Also, Jim is responsible for all the functional areas that support Investment Products and Markets including: Finance, Legal, Technology and Human Resources.

Prior to this role, he was the Director of Finance, Risk, and Strategy for Global Wealth Management Investments at Citi. He joined Citi in November of 2006 as the Chief Operating Officer of Investment Advisory Services.

Prior to joining Citi, Jim spent 20 years with Merrill Lynch where he served in a number of field and home office roles. In his last position at Merrill Lynch, he was the Chief Administrative Officer (Americas) for Merrill's Global Private Client business. In this role he had a variety of strategic, design and operational responsibilities in support of Merrill's Private Client business.

Before serving as CAO, Jim held several field leadership positions at Merrill Lynch: Managing Director of Merrill's Wellesley, Massachusetts Complex, the Director of the Norfolk, Virginia Complex and Regional Sales Manager for the Mid-West District. He began his career in 1985 as a Financial Advisor with Merrill Lynch in Washington, DC and Northern Virginia.

Jim has a B.A. in Economics from the Catholic University of America and was a Sloan Fellow at the Massachusetts Institute of Technology, where he received a SM in 16 Management Science. Jim continues as a Senior Lecturer at M.I.T. at the Sloan school. He holds the Certified Investment Management Analyst (CIMA) designation.

Jeff Applegate

Chairman

Chief Investment Officer

Jeff Applegate is the chief investment officer of Morgan Stanley Smith Barney, responsible for strategic and tactical asset allocation advice to clients. He leads the investment strategy team and chairs the Global Investment Committee. Previously, Mr. Applegate was the chief investment officer at Citigroup Global Wealth Management and, before that, Franklin Templeton. Earlier in his career, he was chief investment strategist for Lehman Brothers and Credit Suisse. Mr. Applegate has also been a senior investment advisor on both the sell side and the buy side at institutions such as Shearson Lehman Hutton, E.F. Hutton and Smith Barney. He began his career as an analyst with



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H.C. Wainright in 1974. Mr. Applegate earned a B.A. in international studies from American University and a B. Litt. in politics from Oxford University. He is on the Morgan Stanley Retirement Plan Committee and the Morgan Stanley Smith Barney Management Committee. He is also a member of the New York Society of Security Analysts and the CFA Institute.

Glenn Regan
Managing Director
Director—Consulting Group Investment Advisor Research

Mr. Regan has been a Managing Director and the Director of the Consulting Group Investment Advisor Research for MSSB since June 2009. Previously, Mr. Regan was a Managing Director of CGM, Head of Investment Advisor Research for the Global Wealth Management sector of Citi, and Chief Investment Officer of Smith Barney's Consulting Group. He had been with CGM or its predecessor firms since 1987. Mr. Regan received a B.S. in Business Administration from Syracuse University School of Management. Mr. Regan is a charter holder of the CFA designation.

Robert J. Mandel
Managing Director
Legal Counsel—Investment Advisory Services and Graystone Consulting

Mr. Mandel is a Director, Secretary and Chief Legal Officer of Morgan Stanley Smith Barney's Investment Advisory Group and the Graystone Consulting division. He is also a Managing Director of Morgan Stanley Smith Barney Inc. and joined the firm in 2000. Previously, Mr. Mandel was a litigation partner at Neal Gerber & Eisenberg. Mr. Mandel holds a JD from Hofstra University School of Law and a BBA from Hofstra University.

Other Resources Supporting Graystone Consulting

Graystone Consulting is the institutionally-focused business of Morgan Stanley Smith Barney consisting of 40 teams of experienced consultants located around the country. The teams are comprised of more than 100 financial analysts and over 150 staff including analysts. Graystone Consulting is a leading provider of sophisticated investment advice tailored to the specific needs of each client. Specialized tools and systems include access to a broad database of manager research tools, unique capabilities across traditional and alternative investments, custody and performance reporting tools and fiduciary services. Clients include corporate retirement plans, nonprofit organizations, healthcare entities, insurance funds, state and local governments and family offices. Additional information can be found at www.morganstanley.com/graystoneconsulting.



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The Global Investment Committee is made up of 17 senior professionals from Morgan Stanley & Co. Incorporated Research, Morgan Stanley Smith Barney, Citi Investment Research & Analysis and outside financial market experts. The Global Investment Committee provides advice to Morgan Stanley Smith Barney Financial Advisors and our clients through a disciplined process of fundamental research and a comprehensive analysis of economic and market conditions. Consulting Group Investment Advisor Research is comprised of over 60 people including 50 due diligence analysts who proactively engage in manager on-site visits, conversations with investment managers as well as the creation and maintenance of on-going research analysis. We have approximately 42 research analysts covering traditional strategies, 6 covering Alternative Investments and 3 performing operational due diligence on Alternative Investments.

CLIENTELE DEMOGRAPHICS

Please provide the mean and median portfolio size of your clients and the average number of client relationships assigned to each analyst/consultant.

Graystone Consulting targets institutional clients ranging in size from \$10 million to over \$1 billion, and has existing clients as large as \$3 billion. The average portfolio size is \$55.9 million with a median portfolio size approximates \$20.6 million.

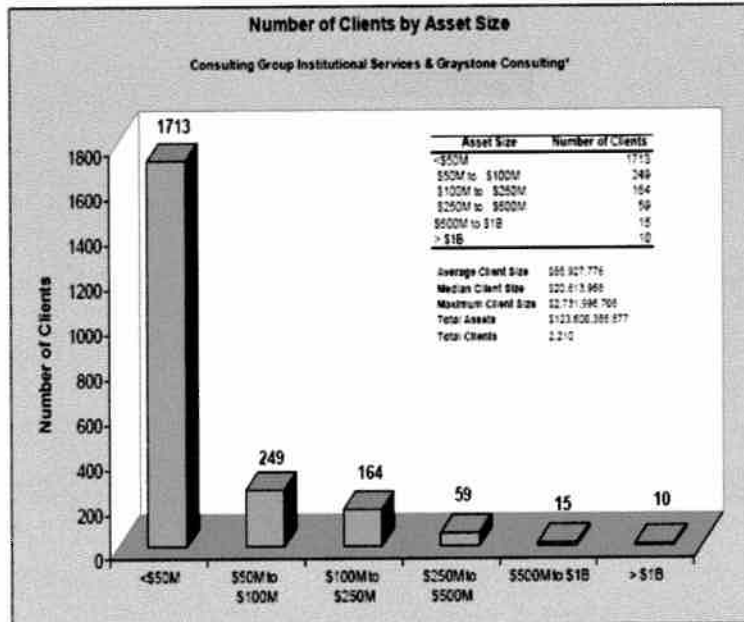
As of December 31, 2010, Consulting Group and Graystone Consulting actively consulted to over \$123 billion of clients' assets. This \$123 billion represents 2,210 institutional relationships, whose assets range from \$10 million to \$2.73 billion. Clients include, but are not limited to, employee benefit plans, endowments and foundations, jointly trustee funds, public funds, hospitals, state and local governments, family offices and affluent individuals. The average number of client relationships assigned to each consultant is 13.

See Graphic on the following page.



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CLIENT REFERENCES

Name, address, and telephone number of at least 5 persons who may be contacted for reference including at least one client for whom services were terminated in the last 2 years.

Current Clients:

1. Chesterfield County Supplemental Retirement Plan
Attn: Richard Cordle
P.O. Box 40
Chesterfield, VA 23832-0903
(804) 748-1670
2. Cenveo Corp. Pension Plan
Attn: Mickey Walsh, Treasurer
One Canterbury Green
Stamford, CT 06901-2032
3. City of Raleigh, NC
Attn: Perry James, CFO
222 West Hargett Street
Raleigh, NC 27601
(919) 996-3215; (919) 996-4930



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4. NC League of Municipalities
Attn: Linda Black, CFO
215 North Dawson Street
Raleigh, NC 27603
(919) 715-8719
5. NC Association of County Commissioners
Attn: Elizabeth Floyd, CFO
215 N. Dawson St.
Raleigh, NC 27603
(919) 715-0289

Former Clients:

6. LandAmerica Financial Group
Bill Evans, former CFO
804-301-3877
Consulting relationship terminated in conjunction with Company going out of business

CAPABILITIES

Detailed technical proposal including sufficient detail and sample illustrations of reports/analysis to enable the Plan trustees to evaluate your firm in accordance with the selection criteria stated later in this RFP. Include samples or reference to any customized services you have to offer clients.

Graystone Consulting's investment advisory capabilities encompassing research, analytics, services, and advice are widely regarded as among the industry's finest. Independent third-party consultant evaluation organizations have ranked us as follows:

- *#1 in Institutional Clients (Pension and Investments)*
- *#1 in US by number of Defined Benefit Clients (Plan Sponsor, September 2010)*
- *#2 in Endowment & Foundation Clients (Plan Sponsor, 2008)*
- *#1 "Asset Allocation Advice" (Greenwich Associates)*
- *#1 Manager Knowledge (Greenwich Associates)*
- *"Most Extensive Manager Research" (Cerulli Associates)*

Following are descriptions of our research and analytic reports which will be used in the investment consulting relationship with the City of Hampton Employee's Retirement Plan. Accompanying sample reports are illustrated in the **Addenda Section**.



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1. Sample Quarterly Performance Report (ORION) with Risk and Return Analytics—Graystone provides customized performance reports to clients in a timely manner. Performance reporting is available on the total fund composite level and on the individual account or manager level. The suite of performance reports are customizable based on the client needs and demands. A variety of different time periods are available in displaying client returns compared to policy indexes and manager benchmarks. The reports can include an analysis of the overall asset allocation mix, equity portfolio composition, fixed income portfolio characteristics, risk-and-return charts, and visual displays of account cash flows and the growth of client assets over time. Each report is carefully organized in a simple, graphical format. **See Tab 1.**
2. Investment Manager Search Analysis—We provide investment manager searches customized to the client's needs. Customized criteria may include: manager size, years in business, minimum track record, etc. **See Tab 2.**
3. Sector Summary—Each quarter, managers are analyzed by return and risk against their peer group sector. This enables the consultant to see trends developing within a particular sector. **See Tab 3.**
4. Manager Research Report—Individual manager research reports are written and updated on a regular basis. **See Tab 4.**
5. Manager Quantitative Commentary Report—Each quarter investment managers' performance statistics are updated and published on the manager quantitative commentary report. **See Tab 5.**
6. Quarterly Performance Attribution—Each quarter manager performance is further detailed on the attribution report. Essentially, the performance is explained by what factors added and subtracted from performance. **See Tab 6.**
7. Zephyr Style Analysis—An investment manager's style can be analyzed in this report. **See Tab 7.**
8. Asset Allocation Study/GIC Committee—Detailed asset allocation reports are provided through Graystone. Examples are shown. **See Tab 8.**

FEE/PRICING SCHEDULE

See Enclosed, Sealed Envelope.

ANTI-COLLUSION/NON-DISCRIMINATION

Completed and signed anti-collusion/nondiscrimination clauses on page 2.



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ADDITIONAL INFORMATION

- i. **Within the past five years, have there been any significant developments in your organization such as changes in ownership, restructures, reorganizations or investigations?**

Graystone Consulting, formerly known as Citi Institutional Consulting, was formed in 2006, as the elite institutional consulting division of its sister organization, The Consulting Group. The Consulting Group was founded in 1973 and has been recognized as a leading registered investment advisor and consulting firm for over three decades.

Graystone Consulting (“Graystone”) provides a complete range of investment consulting services to clients including foundations and endowments, corporate retirement plans, health care organizations, state and local governments, Taft-Hartley funds, and family offices. Investment solutions are delivered by Institutional Consulting Directors, experienced investment professionals, who are backed by a dedicated consulting team and the unparalleled combined global resources of Morgan Stanley and Citi. The result is to empower our clients to make informed investment decisions that can meet and exceed their investment objectives.

Graystone has a national presence headquartered in Purchase, New York, with 40 geographically diverse consulting practices across North America. Our consultants who carry the title of Institutional Consulting Director, have an average of twenty plus years experience, and are recognized as leading practitioners in the industry.

Graystone’s home office staff which supports its 40 national practices is comprised of 237 individuals in New York and Wilmington DE and provides the research and infrastructure for Traditional & Alternative Manager Research, Asset Allocation Strategy, Capital Markets Analysis,

Operations Support & Technology Initiatives. Graystone’s Investment Manager Research staff is among the industry’s largest with over 70 analysts who research and evaluate separate account managers, mutual funds, and alternative investment funds.

About our Parent Companies:

About Morgan Stanley Smith Barney, LLC

Graystone is a business of Morgan Stanley Smith Barney LLC, a registered investment adviser with the Securities and Exchange Commission. (File No. 801-70103) Graystone Consulting is a business



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unit of and is wholly owned by Morgan Stanley Smith Barney, LLC. Morgan Stanley Smith Barney, LLC is a joint venture which is 51% owned by Morgan Stanley and 49% owned by Citi.

About Morgan Stanley

Morgan Stanley, which owns 51% of the Graystone business, is a leading global financial services firm providing a wide range of investment banking, securities, investment management and wealth management services. The Firm's employees serve clients worldwide including corporations, governments, institutions and individuals from 1,200 offices in 37 countries. For further information about Morgan Stanley, please visit www.morganstanley.com.

About Citi

Citi, which owns 49% of the Graystone business, is a leading global financial services company, has approximately 200 million customer accounts and does business in more than 140 countries. Through its two operating units, Citicorp and Citi Holdings, Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Additional information may be found at www.citigroup.com or www.citi.com.

- ii. **Within the last 5 years, has your organization or an officer or principal been involved in actual or threatened litigation, administrative or regulatory, or similar investigation proceedings, relating to your financial asset or management services? If so, provide an explanation and indicate the current status or disposition. Under disposition, include any censures or reprimands received from regulatory bodies.**

There have been no litigation or legal proceedings involving officers or principals of Graystone Consulting within the last five years.

- iii. **Please note any ownership or financial relationships with any other financial firms, including asset management firms, broker or dealer firms, banking, insurance, or actuarial firms.**

Graystone Consulting's parent company, Morgan Stanley Smith Barney LLC is a newly formed investment advisor and broker-dealer that is registered with the Securities and Exchange Commission. Graystone Consulting does not accept payment of client fees through "soft dollar or directed brokerage arrangements". All of our consulting fees are accepted on asset-based or flat dollar fee schedules. Any trades executed for a client's account through the broker/dealer are exclusively for the benefit of the client at a cost of \$0.00 per share. Thus, there are no conflicts of interest.



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- iv. **Describe your firm's back-up procedures in the event that key personnel in this assignment should leave the firm or become incapacitated or in the event of a natural disaster.**

Graystone Consulting structures its client service team for each client with 2-3 lead consultants each. While the primary purpose is for the client to benefit from the skill set of each consultant, the secondary purpose is to ensure on-going service should one lead consultant be unreachable on any given day and/or incapacitated for a pro-longed period of time. Each of the consultants that work on the City's account will be updated on the day to day activities and knowledgeable of the past, current and future objectives of the portfolio. Our group maintains a complete database for each client which includes all past performance reports, recommendations, client communications and all other projects/reports prepared for the client. We also document all investment committee decisions, approval of portfolio changes and on-going activity in the portfolio.

We truly work as a team and hold weekly strategy meetings where we discuss current market conditions, strategic and tactical asset allocation strategies based on current and anticipated market conditions, manager updates and any issues relating to specific client situations and/or overarching themes to be considered for the overall client base. As a result, each lead consultant is proficient in our primary areas of service including investment policy statements, strategic and tactical allocation strategies, manager updates and capital markets assessment. Given the depth of the Graystone Virginia team and our "sharing of resources" partnerships which we have with multiple Graystone teams across the country, we are confident the integrity of the investment advice and level of service would be uninterrupted should a team member depart or experience an unforeseen situation.

Graystone Consulting, as a part of Morgan Stanley Smith Barney LLC (MSSB), is committed to providing uninterrupted service and support to our clients. We recognize that certain uncontrollable events can cause varying degrees of disruption to normal business processes. MSSB recognizes the responsibility to our customers to continue critical operations during such events, including providing access to funds and securities. Our goal is to meet this obligation with minimal interruption---on the same day, if possible---given the circumstances and scope of any disruptive event. MSSB would like its clients and potential clients to be aware that we have developed and maintain written business continuity plans we believe not only provide effective response to a wide variety of disruptive events, but better enable us to continue critical operations during a business disruption.

- v. **Describe the efforts the Firm makes to keep its investment professionals informed of developments relevant to public sector pension investment.**

Graystone pension consultants are required to stay fully abreast and educated on the latest, best practices in public pension consulting. To ensure this, each consultant is required to fulfill a



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number of firm-required training modules as well as individual consultant certification requirements. Required training is as follows:

- 20 hours per year of firm required training
- 40 hours bi-annually for Certified Investment Management Accreditation (CIMA)
- 20 hours annually for Accredited Investment Fiduciary (AIF) accreditation

- vi. **Describe the types of investment research the Firm uses and the methodology used to monitor and evaluate portfolio performance and risk, as well as to recommend investment decisions including the primary strategies for asset allocation and adding value to a portfolio.**

Graystone Consulting utilizes a proprietary software performance measurement system called ORION—See **Tab 1** for Sample ORION Report. The performance measurement software is continually evaluated by our performance measurement resources group in terms of its comprehensiveness and effectiveness in meeting the ongoing demands of the marketplace. Performance is reported on the individual manager level as well as the portfolio as a whole. Portfolio performance reports also provide asset allocation analysis and portfolio investment policy lower and upper percentage weighting limits with respect to asset classes.

Investment performance reports are available on a quarterly basis. We have the capacity to be as granular in our reporting as deemed necessary by the investment committee. The ORION reporting system provides a plethora of exhibits including a one page total fund summary report; this report describes total fund performance vs. benchmarks / target rates of return, asset allocation and strategy weightings by %, \$ and manager asset allocation over time and asset growth. Also included in the reporting system are manager relative performances over various time periods. A one page total fund risk return analysis exhibit is also available.

Graystone also generates user-friendly summary presentations to convey both the objective results of our analysis and, critically, our interpretation of those results. These reports are designed to communicate by using language appropriate to the receiving audience and using visuals to reinforce all information. We work with our clients to design the most efficient reporting method, including the level of narrative required in charts, graphs and tabular data.

Fundamentally, performance evaluation reviews the past. Graystone sees performance evaluation as a critical element of the investment process. The review and evaluation of the past results can generate strategy changes that improve the future. Flexibility is the key to the Graystone's performance reporting



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Graystone Consulting's policies and procedures concerning client performance reporting represent a cross-section of several independent organizations including the Investment Management Consultants Association (IMCA) which incorporated aspects of the CFA Institute's GIPS standards in their own performance reporting standards and development.

Firm returns are compared against manager returns. Understanding that different calculation methods are acceptable under industry recognized standards (e.g., Modified Dietz vs. Daily Valuation) but can produce varying results, the analyst will identify return variances that are outside an acceptable limit (5 basis points). The manager is contacted and dollar values for market values, flows, fees, and income are reconciled. If no recalculation is necessary, the analyst probes into any

differences in calculation method that may exist between the firm and the manager. Once the source of the difference is understood, it is logged into the account file.

vii. Submit samples of reports and include a description of processes the Firm would use to assist in identifying appropriate benchmarks and other measures of performance.

Graystone Consulting assigns a broad market and style-specific benchmark to each investment manager. Style-specific benchmarks are assigned to managers based on their style sub-classification (such as small/mid value or large cap relative value) and verified by measuring the closeness of fit to the benchmark in Zephyr (style based analysis tool).

We build custom benchmarks for our clients to measure their aggregate fund performance. These blended benchmarks reflect the true asset allocation of the fund on a day-weighted basis.

Graystone Consulting discourages the use of universes for relative benchmarking purposes. Realizing that each fund has unique objectives, your assets should be measured against a benchmark that reflects your investment goals. However, we understand that many clients utilize universe comparisons for the purpose of measuring performance relative to their peer groups.

Graystone Consulting has developed custom universes that provide appropriate manager comparisons. Our custom universes sort the Morningstar[®] and Informa Investment Solutions, Inc. databases according to the relative return characteristics of each manager within the universe. This reduces the effect of manager style drift by grouping managers according to the behavior of their returns rather than by their pre-stated discipline or quarter-ending holdings.

viii. Describe the nature and frequency of meetings the Firm would recommend to keep staff informed.



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We will be available for in-person quarterly meetings with the Board and would recommend regular monthly conference calls with the staff. We will also be available on an as needed basis as situations dictate.

ix. Describe the training available for the Board and staff as it relates to their investment responsibilities? Provide qualifications of the individuals that would be assigned to conduct the training.

As your consultant, one of our primary roles is that of an educator. Education builds trust and improves interaction between board, committee members, staff and consultants. Yet, above everything else, education helps our clients remain informed and feel confident of the investment decisions implemented in the portfolio. Graystone practices an on-going service of education. We provide the opportunity for an educational overview at every quarterly meeting subject to the client's discretion. Educational topics can include but are not limited to trustee fiduciary duties, capital markets, investment strategy, asset allocation, alternative investments, investment policy, etc.

The Graystone Virginia group at Graystone Consulting will coordinate and fulfill any educational or training needs of the investment committee and staff. Our extensive research on the capital markets, investment classes, asset styles and products are regularly published as white papers and made available for client education.

Graystone Consulting provides a robust, ongoing series of educational reports, conference calls and educational workshops for committee members, trustees and other fiduciaries. The educational workshops are conducted on-site by your local consulting team. The following is a sample listing of topics — additional materials are continually added to the library of educational data:

- The Prudent Fiduciary: Legal and Regulatory Responsibilities
- Fiduciary Audit File
- Current Issues in the Foundation World
- Quarterly Capital Markets Reports
- An Introduction to Alternative Investments
- Monthly Asset Allocation Research Bulletins
- Investment Strategy Quarterly
- A Fresh Look at Fixed Income
- Elements of Styles: Understanding Value vs. Growth Investing
- Investment Diversification Using Asset Allocation
- Managed Accounts and Mutual Funds
- Limits of Certainty: Understanding Portfolio Optimization
- The Art of Rebalancing



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In addition, Graystone Consulting is an annual sponsor of several well-known organizations providing philanthropic research and survey results on non-profit investing trends. These include the National College of University and Business Officers, the Association of Small Foundations and the Council on Foundations. The survey results from these organizations will be available to you at no charge as a result of Consulting Group's support and participation.

x. Provide a copy of the Firm's SEC and/or FSA registration.

See response to question xi below for complete list of SEC, FSA, and state registration requirements that are covered.

xi. Provide proof of state registration.

Graystone Consulting is a business of Morgan Stanley Smith Barney (MSSB), and is a registered investment advisor under the Investment Advisor Act of 1940. We can serve and do acknowledge that we are a fiduciary under the Investment Advisor Act of 1940.

Information can also be found in Part I of Morgan Stanley Smith Barney's Form ADV that may be found on the SEC website at www.sec.gov. Because of the substantial length of this document at nearly 200 pages, we have provided the following directions to the website for your convenience:

1. Visit www.sec.gov.
2. Click "Check out Brokers & Advisers".
3. Click "Investment Adviser Public Disclosure (IAPD)".
4. Click "Investment Adviser Search".
5. Click "Investment Adviser Firm".
6. Type in "Morgan Stanley Smith Barney", click "Go".
7. Click the last of three listings for "Morgan Stanley Smith Barney" on the page.
8. Here you can navigate sections of the document at your convenience. To see the entire ADV document, you can click on "View All Pages" on the left-hand side of "Sections of Form ADV".

Page 1 of Schedule D from the Form ADV available on the SEC website is enclosed, **See Tab 9**

CG - PMG ADV II (Schedule H), **See Tab 9**

Graystone MAP ADV II (Schedule H), **See Tab 9**



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Information disclosing certain legal and regulatory matters are made publicly available through the FINRA website at www.finra.org.

Morgan Stanley Smith Barney LLC, is subject to periodic examinations and inquiries by various regulatory agencies including, but not limited to, the SEC, NYSE, and NASD. Additionally, Morgan Stanley Smith Barney is subject to periodic audits by regulatory agencies of the states in which it operates. Our parent organizations, Morgan Stanley and Citigroup Inc., are subject to reviews by various regulatory agencies including, but not limited to, the Federal Reserve and the OCC (Office of the Comptroller of the Currency).