

**Response to  
Request for Qualifications  
Consultant Services, Retirement  
Fund Investments**

**City of Arvada**

April 2010

Prepared by



1660 Wynkoop Street, Suite 950  
Denver, CO 80202

303.861.1900

www.callan.com

**Paul Erlendson**  
Senior Vice President

**William C. Howard, CFA**  
Vice President



# CALLAN ASSOCIATES<sup>inc</sup>

April 6, 2010



SAN FRANCISCO

NEW JERSEY

CHICAGO

ATLANTA

DENVER

City of Arvada  
Purchasing Division  
P.O. Box 8101  
Arvada, CO 80001-8101

**RE: RFQ # 10-110 – Request for Qualifications, Consultant Services,  
Retirement Fund Investments**

Dear Ms. Polanycia:

Enclosed is Callan Associates' ("Callan") proposal to provide investment consulting services to the City of Arvada ("Arvada"). As the proposed lead consultant and shareholder of Callan, I am authorized to bind our proposal contractually once an agreement has been concluded between Arvada and Callan.

Our proposal contains detailed responses to the questions posed in the RFQ relating to Arvada's three 401a Plans and one 457 Plan. The formal response is supplemented with appendix items labeled A through E. A sample performance measurement report for a defined contribution plan is also enclosed. We look forward to an opportunity to discuss with the governing Boards of the four Plans and the City of Arvada how Callan can assist you in achieving cost effective, customized investment consulting solutions.

Callan's mission is to deliver superior consulting solutions that help our clients achieve their investment and business objectives. We are excited about the opportunity to bring Callan's experience and resources to meet the investment needs of Arvada. As the designated lead consultant, I am happy to provide clarification of any aspect of Callan's proposal. I can be reached at 303.861.1900 or [erlendson@callan.com](mailto:erlendson@callan.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Erlendson".

Paul Erlendson  
Senior Vice President

cc: William C. Howard, CFA

enclosures

## **TABLE OF CONTENTS**

<b><i>Section</i></b>	<b><i>Title</i></b>
I	Cover Letter
II	Questionnaire
Appendix A	Capital Market Review
Appendix B	DC Observer
Appendix C	Standard Contract
Appendix D	Form ADV Part II
Appendix E	Managers With Whom We Do Business
Enclosure	Sample Defined Contribution Report

Questionnaire

- A) PROPOSAL FORM – Complete (3 pgs), with at least three (3) client references and one (1) client that has terminated the consulting relationship within the last three (3) years with duration of the relationship and reason for the termination.

## **PROPOSAL FORM – PAGE 1**

### **SUBMITTED BY:**

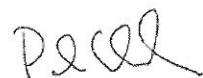
Company Name: Callan Associates, Inc.  
Address: 1660 Wynkoop Street, Suite 950 City: Denver  
State: Colorado Zip: 80202 Phone: (303) 861-1900  
Facsimile: (303) 832-8230

### **CERTIFICATION:** (If a Submission is Offered):

The undersigned hereby affirms that:

- He/she is a duly authorized agent of the bidder;
- He/she has read the General Terms and Conditions, the Special Conditions and any technical specifications that were made available to the Bidder with this Bid and fully understands and accepts these terms unless specific variations have been expressly listed on the Bid Proposal Form;
- The Submission is being offered independently of any other Bidder and in full compliance with the collusive prohibitions specified in the General Terms and Conditions of this solicitation; and
- The Bidder will accept any awards made to them as a result of this Solicitation for a minimum of ninety (90) calendar days following the date and time of the bid opening.

By:



\_\_\_\_\_  
Manual Signature of Agent

4/6/2010

\_\_\_\_\_  
Date

Paul M. Erlendson

\_\_\_\_\_  
Typed/Printed Name of Agent

Senior Vice President

Title of Agent

Include Original with Submission  
Affix Manual signature of authorized agent

### **NO OFFER:**

Indicate reason(s) why no offer is being submitted at this time.

## **PROPOSAL FORM – PAGE 2**

### **PROMPT PAYMENT TERMS:**

Discount: NA %      \_\_\_\_\_ Days

Net:      \_\_\_\_\_ Days

### **VARIATIONS:**

The Bidder shall identify all variations and exceptions taken to the General Terms and Conditions, the Special Conditions and any Technical Specifications in the space provided below; provided, however, that such variations are not expressly prohibited in the Bid documents. For each variation listed, reference the applicable section of the bid document. If no variations are listed here, it is understood that the Bidder's Proposal fully complies with all terms and conditions. It is further understood that such variations may be cause for determining that the Bid Proposal is non-responsive and ineligible for award:

Page #: \_\_\_\_\_ Item # or Section: \_\_\_\_\_

Variance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Page #: \_\_\_\_\_ Item # or Section: \_\_\_\_\_

Variance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Page #: \_\_\_\_\_ Item # or Section: \_\_\_\_\_

Variance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Page #: \_\_\_\_\_ Item # or Section: \_\_\_\_\_

Variance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## **PROPOSAL FORM – PAGE 3**

**REFERENCES:**      (MANDATORY)

[REDACTED]

[REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

---

B) EXPRESSION OF INTEREST – Include one (1) sheet or attachment that explains the nature of the firm’s interest and understanding of the referenced requirements, as well as the relevance of their expertise.

Please see cover letter included as part of the RFQ response.

C) BUSINESS DESCRIPTION – Include:

1. Brief background

Callan Associates Inc. (“Callan”) is the largest privately owned company engaged primarily in investment consulting. Our company traces its origins to 1969 when Edwin C. Callan formed the investment measurement division of Mitchum, Jones and Templeton, a large West Coast brokerage firm. In 1973, Mr. Callan and others purchased the investment measurement division and formed Callan Associates Inc., a subchapter S Corporation incorporated in the State of California. Callan has been providing consulting services to tax-exempt organizations for thirty-seven years, since our incorporation in 1973.

Callan clients include public and private defined benefit plans, defined contribution plans, multi-employer plans, endowments and foundations. Our goal is to improve the performance of each of our client’s investment funds by providing unbiased information and advice regarding the management of their fund assets.

2. Location(s), size, structure, resources, website

**Locations and Size**

The table below lists our corporate headquarters and 4 regional offices, the function(s) of each office, and the number of employees by location.

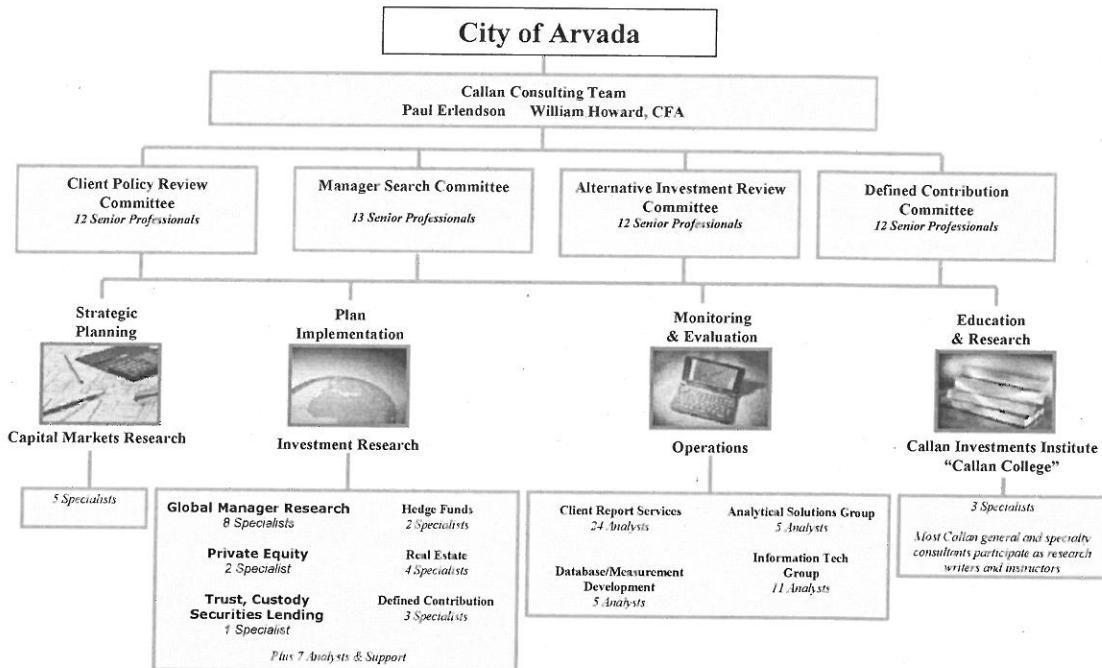
Location	Function	Employees
101 California Street, Suite 3500 San Francisco, California 94111	Corporate Headquarters Fund Sponsor Consulting Institutional Consulting Group Independent Adviser Group Callan Investments Institute Trust Advisory Group	124
1660 Wynkoop Street, Suite 950 Denver, Colorado 80202	Fund Sponsor Consulting	8
120 North La Salle Street, Suite 2100 Chicago, Illinois 60602	Fund Sponsor Consulting Institutional Consulting Group	9

6 Concourse Parkway, Suite 2900 Atlanta, Georgia 30328	Fund Sponsor Consulting	6
200 Park Avenue, Suite 230 Florham Park, New Jersey 07932	Fund Sponsor Consulting Institutional Consulting Group	8

Each office is responsible for general consulting relationships. The San Francisco office also contains administrative, database, and other centralized functions. Callan utilizes a peer review system for all strategic planning projects and managers searches conducted by the firm; this ensures quality control and facilitates communication throughout the organization.

### Resources

Callan Associates is organized along functional lines (see chart below) so that each client, working through its general consultants, can draw upon the full resources of the firm on an as-needed basis. Unique within the consulting industry, Callan has four peer review committees. The peer review process eliminates personal bias, and assures the impartiality and thoroughness of Callan's consulting product to each client. Callan has 117 professional employees and 155 total staff members.



The specialty departments and resources we feel would be integral in servicing a relationship with the City of Arvada are described below.

### **Global Manager Research**

Callan's Global Manager Research Group is staffed by experienced investment professionals whose sole mission is to research investment management organizations and products. Their expertise is supplemented by state of the art technical tools to

evaluate investment results and portfolio risk levels. Callan clients who avail themselves of these professional and technological resources are better able to evaluate and understand their managers' investment results.

### **Defined Contribution Consulting Group**

Callan maintains a group of three professionals solely dedicated to defined contribution plans. Lori Lucas, an industry recognized leader in defined contribution issues, leads the group and provides input to key regulatory bodies on issues critical to defined contribution plan sponsors. They work closely with other internal resources to seamlessly deliver services to those plan sponsors with both defined benefit and defined contribution plans.

### **Client Report Services**

Callan's performance measurement systems are entirely proprietary systems that have been developed by internal programmers. Callan calculates daily time-weighted rates of return on domestic equity portfolios unlike most of our competitors. Our performance reports have extensive performance attribution capabilities that can be applied at the Total Fund level as well as at the portfolio level. We recently introduced a sophisticated attribution protocol that allows defined contribution investors to evaluate the performance contribution of target date funds' glide path structure and implementation, as well as investment performance within the individual asset classes included within a fund family's glide path.

### **Capital Markets Research Group**

The Capital Markets Research group is a critical resource as they are responsible for the strategic work conducted at the firm. They serve as the central repository of a wide range of knowledge derived from client work conducted firm-wide and offer the consultants invaluable insights into a wide variety of current issues. This group also contributes important innovations to Callan product offerings; for example, they pioneered the use of income replacement ratios in the construction of glide paths for target retirement funds.

### **Peer Review Committees**

A distinguishing feature of Callan's consulting model is our peer review process. We ensure that all strategic investment solutions presented to our clients are subject to full due diligence review by senior members of Callan's fund sponsor consulting practice via four major oversight groups:

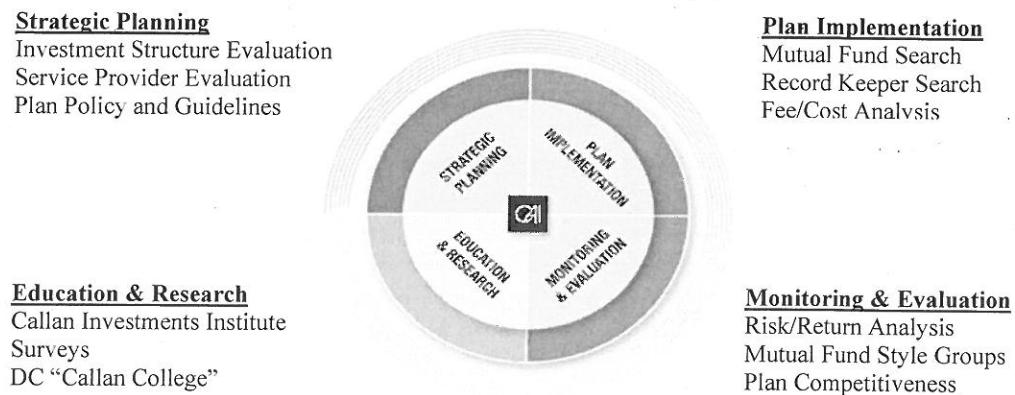
- *Client Policy Review Committee* – Reviews all strategic reports and projects, including asset allocation and manager structure studies; currently has twelve members.
- *Manager Search Committee* – Verifies the accuracy, completeness, and objectivity of all data gathering, due diligence, and evaluation used in our manager research process; currently has fourteen members.
- *Alternatives Review Committee* – Evaluates all alternative investment searches, projects and studies undertaken by our clients; currently has thirteen members.

- *DC Committee* – Reviews projects related to defined contribution design and delivery, including provider due diligence and searches; currently has twelve members.

These peer review committees oversee all work performed for our clients to ensure that the solutions implemented meet Callan's fiduciary standards and the client's overall investment policy.

### 3. Major services and expertise

The services Callan offers to defined contribution plans can be illustrated as four distinct phases of investment consulting: Strategic Planning, Plan Implementation, Monitoring and Evaluation, and Education and Research. The four phases are arranged in a circle below to illustrate a continual flow from one phase to another.



#### **Strategic Planning**

The purpose of strategic planning is to define the overall character, structure and policies of the plan. Foremost among these would be a review of the investment policy statement as well as an evaluation of your current investment options, which would be achieved through an investment structure evaluation.

Also included would be a review of your current investment policies, including an analysis of the appropriate benchmarks for your funds, processes for ongoing review of your funds, and processes for ongoing communication with committee members.

#### **Plan Implementation**

Plan implementation is the process of changing the plan to reflect the information generated and the decisions made during the strategic planning process. If the results of the aforementioned investment structure evaluation included a recommendation for additional or replacement investment options, we would conduct mutual fund searches during this phase.

## **Monitoring and Evaluation**

Callan provides plan monitoring and evaluation to our clients to ensure that plan sponsors remain up-to-speed on the information necessary to meet their fiduciary responsibilities. The information we provide to clients includes a market review, a total plan analysis, and a thorough evaluation of each option relative to appropriate benchmarks and mutual fund peer groups. Important in the monitoring process is the qualitative evaluation of any changes within the investment process, style, personnel, and philosophy of each fund, which we would provide to you.

## **Continuing Education**

The Callan Investments Institute is a leading continuing education and research facility serving the institutional investments industry. Callan Investments Institute provides an educational forum devoted completely to defined contribution issues.

Callan Associates also provides a full spectrum of consulting services to other types of plans (e.g. defined benefit, endowment, foundation, Taft-Hartley). Throughout our 37 year history we have added services and professionals to meet the needs of our institutional clients. For example, we recently introduced a sophisticated attribution protocol that allows defined contribution investors to evaluate the performance contribution of target date funds' glide path structure and implementation, as well as investment performance within the individual asset classes included within a fund family's glide path.

The following aspects of Callan Associates set us apart from the competition:

- *Experience and objectivity* – Callan has experience working with a wide variety and sizes of investment programs. Objectivity is central to our client service philosophy. We always conduct ourselves with the highest of fiduciary standards.
- *Dynamic Team Approach to Client Service* – A carefully selected team of Callan consultants works with each client to create a true investment partnership. Our goal is to facilitate open communication among all those involved in investing the client's assets. To ensure that every client receives the full, collective wisdom of our consultants and the full benefit of Callan's unparalleled resources, a committee of senior consultants carefully reviews all client projects.
- *Valuable, Timely Education and Research* – Callan is the leading educator of institutional investors and their consultants. Through our timely educational programs and meticulous, practical research, we help clients stay abreast of the latest investment trends. And to ensure the quality of the knowledge we share, our associates' continuing education is a priority for us as well.
- *Original, Adaptable, State-of-the-Art Technology* – Callan's state-of-the-art technology provides clients with easy access to our extensive capital market and manager research, as well as our comprehensive database. It allows the presentation of these data to be customized in the format that clients find most effective, and

facilitates the rapid composition, transmittal and understanding of our reports, whether electronically or on hard copy.

- *Renowned Experts in Global Investment Consulting* – Callan is one of the oldest firms in investment consulting, bringing more than a quarter-century of investment expertise to each client relationship. While a lot of firms have followed our lead in providing consulting services, there is one asset they cannot duplicate—our people. Callan consultants are widely known, highly experienced innovative investment professionals. Many of our practical, analytical “firsts” have become standards for the industry.

#### 4. Number of Current Clients.

Callan currently has 314 clients with total assets under advisement of approximately \$920B. The table below shows the number of total clients served by Callan, along with the average assets under advisement for each type of client.

Org Subtype	Retainer		Project	
	Count	Mean (MM)	Count	Mean (MM)
Corporate	135	\$1,189	18	\$904
Public	80	\$5,642	13	\$19,498
Taft-Hartley	10	\$1,110	0	0
High-Net	3	\$787	1	\$1,700
Non-Profit	43	\$522	5	\$291
Other	5	\$305	1	\$1,000
Total	276	\$2,353	38	\$7,208

A listing of Paul Erlendson's current clients is shown below.

Client	Assets (\$MM)
Alyeska Pipeline Service Company	295
Boilermakers National Annuity Trust	882
Boilermaker Blacksmith National Pension Trust	5,622
Confidential Client	20,820
Leggett & Platt	172
North Dakota State Insurance Trust	1,128
North Dakota State Pension Trust	2,869
Sempra Energy	2,434
University of Alaska Foundation	2,981

The following table is a listing of Bill Howard's current clients.

Client	Assets (\$MM)
Aurora (City of) General Employees' Retirement Plan	245
Confidential Environmental Trust	70
Confidential Family Trust	674
Confidential Family Trust	249
DMNS Foundation	52
Pioneer Hi-Bred International	398
Schottenstein Stores Corp.	109
Tulsa (City of) Municipal Employees' Retirement Plan	300
Valdez (City of) Permanent Fund	98
Wichita Retirement Systems	741

5. Disclose any business associations with any investment provider or financial product vendor by which your firm is compensated.

Investment consulting is our primary business line. Consulting to clients such as the City of Arvada accounts for the majority of Callan's revenue. We provide consulting services and receive fees in four areas beyond fund sponsor consulting. These areas are explained in the following paragraphs.

- *Independent Adviser Group ("IAG")* provides consulting resources to a select group of independent consulting firms and financial intermediaries. Through their unique relationship with Callan Associates, IAG consulting firms provide fiduciaries, trustees, and high net worth individuals in the middle market (less than \$100 million) with objective and professional investment consulting services that have been traditionally available to only the largest of institutions.
- *Institutional Consulting Group ("ICG")* provides performance measurement services and style reports to investment managers who use these reports primarily for internal monitoring and marketing. ICG also provides product, organizational structure and process assessments to investment management fiduciaries.
- *Callan Investments Institute ("Institute")* is the educational division of Callan Associates, providing continuing education and research through regional and national conferences, research and position papers, and market and statistical surveys. All fund sponsor clients are members of the Institute; investment managers also belong to the Institute.
- *Trust Advisory Group ("TAG")* is the asset management division of Callan that specializes in the design, implementation and on-going management of multi-manager portfolios for institutional investors. Currently TAG serves as the sponsor and advisor to a multi-manager small cap equity fund and as the non-discretionary advisor to a series of Target Maturity Funds known as the Callan GlidePath® Funds.

Callan receives fees from investment managers who are clients of the Institutional Consulting Group (ICG) and/or who are members of the Callan Investments Institute. In a very limited number of situations, we provide fund sponsor consulting services to parent companies that have investment management subsidiaries.

Callan does not receive any compensation from managers for inclusion in our database, nor for retention of existing relationships, nor for selection in a manager search undertaken for our fund sponsor clients. The only fees received from managers are associated with the specific consulting services provided to such managers.

D) EXPERIENCE – Your firm’s experience in providing consultation services for 401a and 457 plans, in particular for governmental entities.

Throughout our 37-year history Callan has provided investment consulting services for individual account-type programs. Callan has the depth of knowledge and resources to assist DC plan sponsors with discharging their fiduciary responsibilities.

In general, the strategies, processes and procedures that Callan originally developed to support defined benefit plans serve the needs of defined contribution plans well. The asset allocation tools and experience we developed for defined benefit plans have been critical to our ability to help DC sponsors decide on the number and type of options to offer participants. It has enabled us to help DC clients to develop participant education programs and more recently to evaluate life cycle funds and increasingly to design custom life cycle funds.

The proprietary databases and on-going manager research effort and rigorous manager selection process developed to support Callan’s defined benefit clients have enabled us to go beyond the mechanical approaches to mutual fund evaluation upon which many advisors to DC programs must rely on.

Callan maintains a group of three professionals solely dedicated to defined contribution plans. Lori Lucas, an industry recognized leader in defined contribution issues, leads the group and provides input to key regulatory bodies on issues critical to defined contribution plan sponsors. They work closely with other internal resources to seamlessly deliver services to those plan sponsors with both defined benefit and defined contribution plans.

Callan’s proprietary performance measurement system offers both defined benefit and defined contribution plan sponsors comprehensive and customized quarterly performance reports that serve as important decision making tools. Callan was a pioneer in developing meaningful investment style peer groups that maintain consistent characteristics and avoid survivor bias. These peer groups were initially developed to compare separately managed accounts gross of fees. In recognition of the needs of the defined contribution plan sponsors who employ mutual funds, Callan also develop mutual fund peer groups

that allow plan sponsors to make meaningful comparisons between mutual funds that, by definition, report returns net of fees and have cash flow patterns different from separately managed accounts.

### **Callan DC Index™**

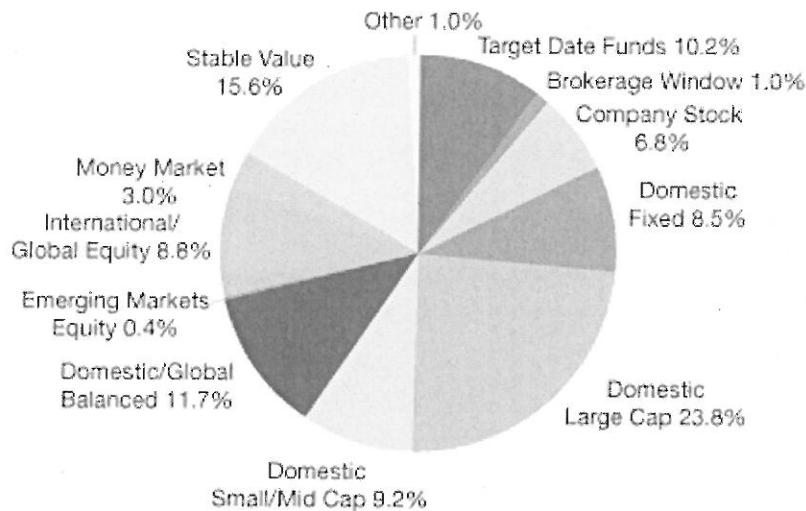
One of our tools that can help with performance measurement is the *Callan DC Index™*. This is the first index in the industry that enables you to track, measure, and evaluate how aggregate defined contribution plan decisions impact fund flows, asset allocation, and the investment performance of DC plans:

- Tracks the asset flows and performance of approximately 60 DC plans representing more than 800,000 plan participants and over \$70 billion in retirement plan assets.
- All plans are participant-directed and include 401(k), 457, and 403(b) type plans.
- Gives insight into where DC monies are invested and how participant and plan sponsor activities impact overall performance.
- Measures performance relative to benchmarks at the asset class and plan level.
- Provides a useful tool for plan sponsors' decision-making process, and for benchmarking the asset allocations of their plans.
- Gives investment managers an accurate snapshot of aggregate participant, plan sponsor, and market activities on a quarterly basis.
- The Index is uniquely positioned to reflect the vast changes expected in DC plans as a result of the 2006 Pension Protection Act.

The Callan DC Index has shown:

- Better diversification has been found in DC plans due to target date funds.
- The majority of DC participant assets are invested in active investment strategies.
- A significant majority of plans – 80% – offer asset allocation funds with target date funds becoming more prevalent over risk-based asset allocation options.

### Callan DC Index Asset Allocation as of December 31, 2009



### Target Date Fund Analytics

Recently created enhanced target date analytics for DC plans. Callan's *TDVantage* helps plan sponsors achieve their critical fiduciary obligations with respect to monitoring, evaluating, and tracking their target date funds. *TDVantage* performance measurement starts at a high level examining the overall target date fund glidepath, and then drills into the individual target date managers' decisions. This includes active management and asset allocation decisions. *TDVantage* incorporates Callan's unique Consensus Glidepath Index and peer group analysis. Our *TDVantage* report provides:

- Equity rolldown analysis
- Macro and micro level asset allocation glidepath vs. Consensus Glidepath Index
- Target date family analysis (net and gross of fees)
- Fee analysis

For many years Callan has been a leader in offering conferences and other educational programs to defined benefit plan sponsors. As our defined contribution practice has grown we have increased attention to addressing investment issues specific to defined contribution plans. Several years ago we established a separate division of the Callan Investments Institute devoted to defined contribution plans and started an annual conference to focus exclusively on defined contribution issues.

Defined contribution plans comprise 25% of our fund sponsor clients. Approximately 13% of our defined contribution clients are government plans. Callan currently serves three governmental 457 deferred compensation plans with assets ranging between \$6 million and \$511 million.

- E) STAFF QUALIFICATIONS – Name and qualification of staff members that would be servicing the City, including resumes. Include any personal certifications.

Callan believes that each of our fund sponsor relationship is best served by a team of consultants. Paul Erlendson, Senior Vice President would be the primary contact. He will have ultimate responsibility for the coordination and delivery of all consulting services, ensuring the completeness and quality of all work performed. William Howard, CFA, Vice President is the other member of the consulting team. He will be thoroughly familiar with all aspects of the relationship and serve as principal consulting backup. The team will marshal the resources of Callan's research specialists when necessary. Biographies for our proposed consulting team are included below.

**Paul M. Erlendson** is a Senior Vice President and a senior consultant in our Denver consulting office. He is a member of Callan's Client Policy Review, Manager Search and Defined Contribution Committees, and is a shareholder of the firm. Paul has assisted a variety of institutional investors with a broad array of investment policy formulation, implementation, and evaluation decisions. Paul has twenty-six years of industry experience and has been with Callan Associates for twenty-three years.

Prior to joining Callan Associates in 1986, Paul served on the staff of a state pension system. His background also includes work in the insurance industry, and a stint as a college instructor. His commitment to education extends to participating in speaking roles at various investment forums. He is a member of the Pitzer College Parent Leadership Council. Paul earned a B.A. and an M.A. from North Dakota State University.

**William C. Howard**, CFA, Vice President, Fund Sponsor Consulting Group. Based in Callan's Denver office, Bill works with a variety of fund sponsor clients, including foundations, public defined benefit plans, and corporate defined contribution plans. His responsibilities include strategic planning, implementation, performance evaluation, and continuing education. Bill is a shareholder of the firm and a member of Callan's Manager Search Committee.

Prior to joining Callan in 2001, Bill was a research analyst for Pritchard Investment Management, a registered investment advisor specializing in enhanced index strategies. He began his investment career as a portfolio analyst tracking the performance of investment advisory newsletters at Hulbert Financial Digest.

Bill holds an MBA from the University of Denver and a BA from Vanderbilt University. He has earned the right to use the Chartered Financial Analyst designation. Bill is a member of the CFA Institute and the CFA Society of Colorado.

F) CUSTOMER SERVICE – Identify the objectives your firm has for serving its clients.

Callan believes that our mission is to help stewards of assets effectively manage their responsibilities via an objective, strategic, and prudent process that supports their business initiatives. We believe that to comply with fiduciary strictures, fund sponsors must adopt well-defined procedures and methods to provide the best-managed assets for their beneficiaries and to protect themselves from liability. Our processes help our clients discharge their duties with the highest fiduciary standards.

G) RESPONSE TO ANTICIPATED SCOPE OF WORK – Address how your firm performs such tasks as listed in paragraph 2 of the Scope of Work.

**Performance Measurement**

The goal of Callan's performance reports is to thoroughly analyze the investment managers in all areas to ensure that the client's assets are being prudently managed. The performance evaluation report is the necessary foundation to maintain the strategic plan and establish any required action steps.

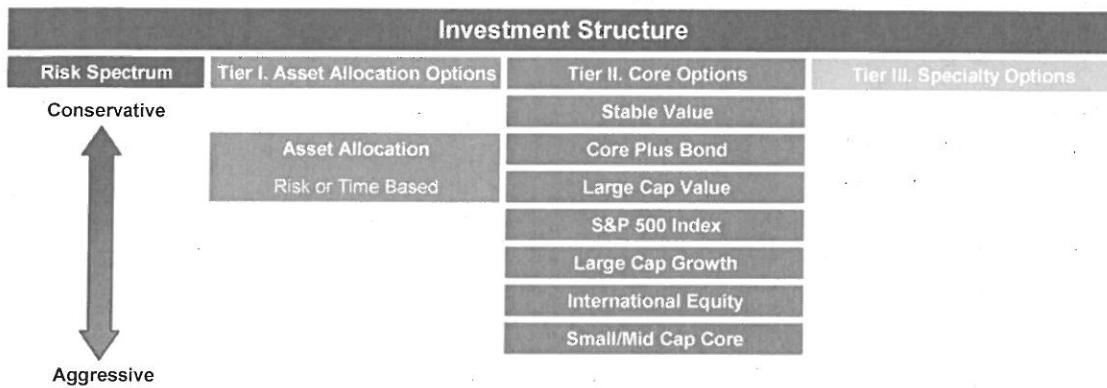
Our performance measurement reports themselves primarily contain quantitative and factual information relating total plan and investment advisors' performance. The qualitative commentary and information that we provide is conveyed in person in our quarterly investment meetings and through a quarterly investment letter. A sample performance measurement report is enclosed.

Peer Group Analysis

Callan has developed style groups for mutual funds for performance comparison purposes. The starting point in the development of mutual fund style groups is the universe of funds monitored by Lipper Analytical Services and CDA Investment Technologies, which represents approximately 10,000 funds. Each of these funds is evaluated both qualitatively and quantitatively as a potential candidate for inclusion in a style group. Callan's mutual fund style groups primarily parallel those established for our separate account style groups. We can show a mutual funds performance relative to peers over specified time periods. Because we maintain an in-house performance measurement system we are able to customize exhibits.

Investment Structure Evaluation

When evaluating a plan's investment structure, we typically utilize a three-tiered framework that we have developed based on our experience and our observation of industry best practices to map out the plan's current investment array and compare it to possible alternative structures. The chart on the following page illustrates what our "ideal" investment structure might look like (without taking into account a given plan's characteristics and participant base).



**Tier I is the asset allocation fund tier.** Callan believes that asset allocation funds, in general, are good alternatives for all plan participants because they are professionally designed. They can also be positioned as the easy choice for those participants lacking the knowledge, interest, or time to manage their accounts directly. The key is to manage communications given the somewhat shorter timeframes of education savings plan time horizons.

**Tier II is the core fund tier.** This tier includes the basic building blocks participants would need to create a diversified portfolio. Callan considers a plan's line-up to provide sufficient asset class coverage if it includes funds whose benchmarks generally represent the following asset classes: money market/stable value, core fixed income, large cap equity, small cap equity, and international equity. In the large cap equity space, we typically see plan sponsors have a passively managed S&P 500 Index fund and actively managed funds in the large cap value and large cap growth positions.

**Tier III is the specialty tier.** Investment funds not considered core are categorized in this tier. Examples include company stock for corporate plans, sector funds, emerging markets funds, REITs, high yield, etc. Some plan sponsors may also offer participants a mutual fund window or self-directed brokerage option. These options would also be placed in this tier. Callan does not generally recommend the use of specialty options in a qualified plan investment structure because they usually introduce a significantly higher level of risk and require a significantly higher level of investment sophistication on the part of participants. We recognize, however, that there are many reasons why plan sponsors believe it is important to include the specialty category, and we work with our clients to integrate these into a sound investment structure.

Finally, there are additional topics in the defined contribution industry on which Callan has conducted significant research and which we would apply to any structure work we would conduct. They include, but are not limited to:

- What is the appropriate default option?

- What are the implications in offering time based asset allocation funds in different increments?
- What are the pros and cons of offering a brokerage window?
- What is the appropriate investment vehicle: separate accounts, collective trusts, mutual funds?
- Stable value versus money market?

#### Manager Recommendation Criteria

Callan relies on the 4 P's – philosophy, people, process, and performance to make manager recommendations. While the evaluation of performance is objective, the assessment of the philosophy, people and process, and its ability to replicate past performance going forward, is subjective. We believe that having dedicated manager research professionals, combined with the collective insight of the senior consultants on our Search Committee, gives us a higher probability of selecting managers that will be successful for clients.

#### Callan Investments Institute

The Callan Investments Institute is the medium through which research is distributed. Research papers and surveys produced by Callan are disseminated quarterly to Institute members. Annually, the Institute conducts one to three major surveys. These industry surveys address topics of broad interest where we believe data is limited. Examples of recent surveys include:

- 2010 Defined Contribution Trends Survey – Getting the DC Plan Back on Track
- Rising from the Ashes – A Callan Survey Of How Investment Managers Survived the Market Collapse
- 2009 Investment Management Fee Survey
- 2009 Target Date Fund Manager Survey

To keep our clients abreast of market trends, we produce an in-depth quarterly report that provides numerous statistical charts highlighting performance trends relating to plan sponsors, active managers, and market indices. In addition, to providing a monthly market index report to our clients, the following publications, both electronically and in hardcopy are also available:

- *Capital Market Review* – This quarterly newsletter reports on macroeconomic indicators, and provides performance reports and commentary on the equity, fixed-income, and international markets. We have included a copy of our most recent Capital Market Review in Appendix A.
- *Private Market Trends* – This quarterly review provides up-to-date information on the alternative investments and real estate markets.
- *Hedge Fund Monitor* – This quarterly periodical examines absolute return strategies and includes quarterly performance commentary.

- *Quarterly Performance Data* – Callan's Quarterly Performance Data includes quarterly performance information gathered from our proprietary databases. Performance data is provided for a variety of time periods which allows you to compare the results of your own funds with our database. We provide domestic and international equity and fixed income performance results, which includes cumulative and calendar year performance, risk/reward scatter charts and risk statistics of the Callan Associates database and capital markets indices on a quarterly basis.
- *DC Observer* – A quarterly newsletter that offers Callan's observations and opinions on a variety of topics pertaining to the defined contribution industry, investment trends among the plans our clients oversee, and enhancements and developments of products that investment managers and plan providers bring to sponsors and participants. The DC Observer also includes a quarterly update of the Callan DC Index. We have included a copy of our most recent DC Observer in Appendix B.

The Institute publishes a number of “White Papers” on important topics and issues. Approximately half of these White Papers result from research projects undertaken for clients. In such cases, we respond to the client request and then modify the work for a broader audience and publish the paper. It is important, however, to note that only a small portion of our client specific research is published as a White Paper. The majority of the client specific work is available internally and the conclusions and findings can be shared appropriately with other clients (i.e., the work is sanitized). The remaining White Papers address topics that Callan’s general or specialty consultants believe are worthy of broad discussion. Typically, these papers are developed over a six to nine month period and cover a wide variety of timely topics.

Callan’s research, surveys, and periodicals are available online through our website, [www.callan.com](http://www.callan.com), in a password-protected section. In addition, quarterly performance data for market indices and manager peer groups is available for download.

#### **The Center for Investment Training (“Callan College”)**

The Callan College is a two and one-half day educational program that provides basic- to intermediate-level instruction on the investment management process. The curriculum is tailored specifically for investment fiduciaries and their advisors. Taught by senior Callan consultants and staff several times during the year, the program addresses the key components of the investment management process—fiduciary standards and responsibilities; capital markets theory, asset allocation and writing investment policy statements; manager structure and search procedures; and performance measurement and evaluation.

Tuition is \$2,350 per person. Tuition includes instruction, all materials, continental breakfast, lunch on each day and dinner on Monday night with instructors.

### **Client-Specific Education**

In addition to these formal educational opportunities, Callan consultants regularly prepare and present topics of interest to clients, their committees and boards.

### **Conferences**

All Callan clients are automatically full members of the Callan Investments Institute. Institute members are invited to attend the annual National Conference and regional workshops. Programs are timely and informative, and feature nationally recognized investment industry experts. Recent workshops dealt with the following issues:

- *Disaster-Proofing the DC Plan*
- *Defined Contribution Plans – Has the Game Changed?*

Callan Associates holds a national conference for plan sponsor clients. Approximately 500 fund sponsors, investment managers, and Callan associates attend this Conference. The program consists of general sessions with presentations by world and industry leaders, followed by smaller breakout sessions on timely industry topics led by Callan specialists. This event takes place annually in late January/early February in San Francisco, California.

Callan's educational efforts are significant and primarily focused on plan sponsor committees and staff members who are responsible for the administration, strategic planning and on-going evaluation of their organization's benefit plan. Callan has also assisted staff in preparing descriptions of investment manager options available to plan participants.

Through on-site visits, in-house meetings, web based demonstrations and our proprietary recordkeeper database we continually monitor and evaluate the field for the best-in-breed services with regard to the participant experience. As part of our due diligence we routinely inspect various recordkeepers participant and plan sponsor web sites (Callan is provided demo logins within our database). Additionally we test-drive recordkeepers VRU and call centers to better understand various providers' strengths and shortcomings. We maintain sample communications pieces (including participant statements) from various recordkeepers, again to monitor and evaluate relative strengths and weaknesses.

We believe our perspective as an unbiased, third-party can be helpful in the formal review of advice platforms, or the more informal review of participant communication and education surrounding a plan's structure and underlying investment options. We have worked with many plan sponsors in tailoring their education programs to ensure a consistent message is taken from committee decisions and communicated to participants.

### **Special Projects**

We have the ability to assist board members with special projects due to our extensive resources and experience consulting staff.

H) LITIGATION – Identify any pending litigation, include a brief description.

**Yerby, McVeigh and Perdue (2009)**

In April 2009, Callan was served with a complaint filed by an individual, Jeff Yerby, who purchased a contract to participate in the Alabama Prepaid Affordable College Tuition ("PACT") program, a Section 529 plan. The complaint asserts a number of claims against Callan and other parties, including, among other things, that Callan breached its duties to his beneficiary as funds in the PACT program declined in value to the point that the fund allegedly lacks the assets to meet its future obligations. Also in April 2009, two additional individuals, Brian A. McVeigh and Lynne Whitten, filed a lawsuit involving similar claims to those of Mr. Yerby. In May 2009, a third lawsuit was filed by an individual, Carole M. Perdue, making similar allegations against Callan. Callan believes these claims to be without merit and intends to contest them vigorously.

I) INSURANCE – Professional Liability and General Liability Insurance coverage and limits and carrier information.

The table below details Callan's insurance coverage, which is applied for each occurrence.

Carrier	Type of coverage	Amount (\$)
Westchester Surplus Lines Ins. Co.	Professional Liability Errors & Omissions	5,000,000
Travelers Property & Casualty	Commercial General Liability	1,000,000
	Excess Liability	2,000,000
	Fidelity (Employee Dishonesty)	1,000,000
	Automotive Liability	1,000,000
Republic Indemnity	Workers Compensation & Employers' Liability	1,000,000

J) CONTRACT – Standard Contract document, if any, that might apply to an agreement with a public entity. Final contract document and format to be determined by the City during negotiations.

Our standard contract is provided in Appendix C.

K) NEGOTIATOR – Identification of the firm's representative that will have the authority and responsibility for contract negotiation.

Paul Erlendson, Senior Vice President, is a shareholder of the firm and is authorized and responsible for contract negotiations with the City of Arvada.

- L) FEES/PRICING – Standard fee/pricing structure currently applicable. Provide pricing based on services to one, two, three, or all of the plans. Please include all costs, such as retainers, flat fee, hourly rate, all fees that might apply. This information is not used for evaluation purposes.

Our fee proposal is included in a separate sealed envelope with our submittal package.

- M) Other information deemed pertinent to this RFQ, not to exceed 3 pages.