NEPC, LLC

Rhett Humphreys, III, CFA
Partner

September 29, 2011

Mr. Jesús R. Torres
Investment Analyst
Fire and Police Pension Fund, San Antonio
11603 W. Coker Loop, Suite 201
San Antonio, TX 78216

Via email: investment@safireandpolicepension.org

RE: NEPC's Investment Consulting Services Proposal

Dear Mr. Torres,

NEPC, LLC is delighted to provide you information on our firm. NEPC, LLC has been providing consulting services as its sole line of business since 1986. Our firm was founded based on three main principles: maintain **independence**, provide **proactive counsel** to exceed our clients' goals and objectives, and service our clients with **seasoned professionals**.

The commitment to our clients and guiding principles remains intact, recognizing that our efforts can enhance benefits for the millions of beneficiaries in our care. Our focus has led to industry-leading ratings relative to our ten largest competitors. We hope to provide this commitment and focus to the Fund.

As you assess NEPC's capabilities, we ask you to consider the following:

1. We are **thought leaders**, guiding our collective client base to 22 out of 25 years of **outperformance** relative to national averages (as represented by the median fund in the $1.9 trillion ICC Universe), and outperformance by the average active manager (relative to passive benchmarks) in our client portfolios in all asset classes except high yield and emerging market equities over the last seven years. Worth noting is the fact that our average client outperformed in *2008, 2009 and 2010.*
2. We have a **dedicated public fund team** that serves 55 public funds representing $296 billion in assets.
3. NEPC provides its consulting services to police and fire professionals in many of the nation's largest public fund investment programs. We are the general consultant for Dallas Police and Fire; the City of San Jose Police & Fire; the Chicago Police Fund; and the City of New York's Firefighters. Our client, the Arizona Public Safety Personnel Retirement System was recognized in 2011 as the Money Management Letter's Mid-Size Public Fund of the Year.
4. NEPC research is **award winning.** We have one of the largest research staffs among independent firms and have subject experts in all facets of traditional and alternative

investments. This commitment has been acknowledged as NEPC's research has won awards for our research in five of the last six years.

5. We are one of the largest **independent** investment consulting firms in the industry. We serve 300 retainer clients with over $530 billion in assets. Our growth is attributed to the excellent results our clients have achieved and our high service model.

NEPC has reviewed the contract and would like to make the following requests:

- **Article VI**

  Please add this language to Section 6.01 Liability of Investment Consultant:

  6.01 (d) The Fund acknowledges and agrees that Consultant shall be entitled to rely on information furnished by investment managers, it being understood that Consultant shall have no liability for the accuracy or completeness of any information furnished or representation made by the investment managers, provided Consultant conducted due diligence and evaluation of such investment managers with reasonable care.

  6.01 (e) Consultant will not be liable for any losses or expenses incurred as a result of any action or omission by an investment manager, custodian or unrelated third party.

- **Article VII**

  Please add this language to Section 7.07 Assignment.

  The Fund hereby acknowledges that the Investment Consultant expects that its current and future employees will, over time, increase their ownership stakes in Investment Consultant pursuant to equity incentive arrangements adopted by Investment Consultant. This future change in ownership may be deemed to constitute an assignment of this Agreement; however, by executing this Agreement, the Fund hereby consents to any such assignment by Investment Consultant.

  In section 7.19 Disclosure by Investment Consultant – the reference to Form ADV Part II should change to Form ADV Part 2.

We are thrilled you are considering us and hope to have the opportunity to present our consulting capabilities to you in person.

Best regards,

Rhett Humphrey

Enclosures

cc: Rafael Ramirez, Jr.
Investment Analyst
rramirez@safireandpolicepension.org

NEPC, LLC

YOU DEMAND MORE. So do we.SM

Fire and Police Pension Fund

San Antonio

Investment Consulting Services Proposal

From NEPC, LLC

September 2011

One Main Street, Cambridge, MA 02142
TEL: 617.374.1300 | FAX: 617.374.1313 | www.nepc.com

25 Years 1986-2011

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Investment Consulting Services Proposal for the

Fire and Police Pension Fund, San Antonio

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Investment Consulting Services Proposal for the

Fire and Police Pension Fund, San Antonio

Response to Questionnaire

NAME AND ADDRESS OF COMPANY SUBMITTING PROPOSAL ("PROPOSER"):

Headquarters:

NEPC, LLC
One Main Street
Cambridge, MA 02142

Charlotte Office:

NEPC, LLC
5113 Piper Station Drive
Suite 205
Charlotte, NC 28277

Contact Person: Rhett Humphreys, III, CFA

Title: Partner

Phone: (704) 247-4343 Fax: (704) 542-7171

E-Mail: ehumphreys@nepc.com

Company Background

1. Provide a brief history of the firm including the year of inception, ownership, affiliated and subsidiary companies and relationships, joint ventures, and any business partners.

NEPC, LLC has been providing consulting services as its sole line of business since 1986. NEPC's Chairman, Richard Charlton founded the firm based on three main principles: maintain **independence**, provide **proactive counsel** to exceed our clients' goals and objectives, and service our clients with **seasoned professionals**. This focus has generated 25 consecutive years of controlled growth, primarily because we have maintained our principles and our clients have consistently outperformed their peers. Our clients in turn have accorded us industry-leading ratings relative to our ten-largest competitors.

NEPC takes pride in our long record of success in providing independent, objective investment counsel to our clients. Clients can be confident in NEPC's integrity, as our revenue model is completely aligned with our clients' interests and goals. NEPC receives 100% of our revenue exclusively from providing investment services to our clients. We do not take commissions, referral fees, finder's fees or any other related investment revenue from investment managers in our clients' investment programs. In short, NEPC's client-focused approach provides the experience and research resources to ensure that we will continue to meet our clients' needs, regardless of market conditions.

Two of our clients, the Arizona Public Safety Personnel Retirement System and the City of Orlando Florida Pension Funds were recognized as Money Management Letter's 2011 Mid-Size Public Fund of the Year and Small-Size Public Fund of the Year, respectively. Dallas Police and Fire Pension System was recognized as Money Management Letter's 2010 Mid-Size Public Fund of the Year. Two of our clients, the State of South Carolina and San Jose Police and Fire, were recognized in 2009 as the Large Public Fund of the Year and Mid-Size Public Fund of the Year, respectively.

NEPC is a Limited Liability Company (LLC). Since inception in 1986, NEPC has been 100% employee owned and is therefore neither an affiliate nor a subsidiary of any organization. Today, ownership is shared among 26 senior employees with no single partner having a majority ownership position. There are plans in place to continue the distribution of the firm's equity and to include additional employees in the ownership on an ongoing basis. NEPC's equity plan ensures continuity and stability through ongoing transition of the firm's ownership to future generations. Our work in this regard sets NEPC apart from many of our competitors who have yet to address the critical challenge of intergenerational wealth transfer and management continuity.

2. Describe any significant developments with your firm in the last three years, such as changes in ownership, restructuring, personnel reorganization, and philosophy. Disclose any known or contemplated future changes in your organization.

Our ownership structure is a source of pride and a large contributor to our success. Early on, the founder and subsequent shareholders recognized the strength of an employee owned firm. Dick Charlton began sharing his ownership in NEPC shortly after founding the firm. As a result, NEPC has many of its original employees and continues to attract individuals from competing consulting firms. Over the years we have deepened our overall infrastructure and broadened the ownership base. By adding new partners NEPC has distributed more ownership among the firm's professionals. Effective March 31, 2011, Dick withdrew from active management of NEPC as part of NEPC's long term succession plan. He remains on as the Chairman of the Board, continuing to interact with NEPC's clients while guiding the ongoing transition of NEPC's management team.

On April 1, 2011, Mr. Michael Manning, CFA, CAIA assumed the position of Managing Partner, effectively continuing his seven-year role managing the firm as NEPC's President. As he did before, Mike continues to lead NEPC's Executive Committee in the policy matters of the firm, and the firm's Management Group in the implementation of those policies.

In January 2008, NEPC converted to a Limited Liability Company (LLC) form of incorporation from our previous Subchapter S structure. This move was explicitly done to provide NEPC's newer Partners with materially enhanced ownership positions in the partnership. It has strengthened the Partners' financial incentives to continue to add value to our client investment programs as well as to maintain our industry-leading client ratings and our overall leadership position within the investment consulting industry. This was perhaps the most important structural change in the history of our firm and we are highly confident that our firm's overall objectives will continue to be realized.

Since the inception of the firm, NEPC has seen the necessity to provide more specialized and in-depth advice to certain client types. While we have served all business lines with deep, experienced teams for many years, we formalized our Practice Group structure in 2008 to recognize the strength of our specialized advice to our various client types. NEPC has six consulting practice teams focused on different market segments (Taft-Hartley, Public Funds, Endowment/Foundation, Healthcare Organizations, Corporations and Defined Contribution Plans). NEPC's research department is recognized as one of the largest in the industry. NEPC also has a strong focus on portfolio construction, with an emphasis on risk management, which is evident in our dedicated research staff for asset allocation analysis and strategies. In addition to our robust research, NEPC also has a performance analytics team and administrative and operational staff members.

We do not anticipate any material changes in the future, other than the continued transition of the firm's equity to current and future key professionals.

3. Provide the address of your corporate office and a description of the firm, including number and location of offices, number of professional consultants, and scope of services offered. Also indicate which office(s) would service the Retirement System.

Please refer to the previous responses for a description of our history and ownership of the firm. NEPC, LLC's headquarters are located at:

Address:	One Main Street
	Cambridge, MA 02142
Telephone:	(617) 374-1300
Fax:	(617) 374-1313

For the purpose of this proposal your primary consultant contact is Mr. Keith Stronkowsky, Consultant. He is located out of our Charlotte office. Mr. Stronkowsky can be reached by phone at (704) 247-4348 or by e-mail at kstronkowsky@nepc.com.

Your proposed secondary consultant is Mr. Rhett Humphreys, III, CFA, Partner, he can be reached by phone at (704) 247-4343 or by e-mail at ehumphreys@nepc.com. Mr. Humphreys also works in our Charlotte office.

Address: 5113 Piper Station Drive
Suite 205
Charlotte, NC 28277-6690

We also have offices in Detroit, Michigan; Las Vegas, Nevada; Redwood City, California, Atlanta, Georgia; and Chicago, Illinois. NEPC has a staff of 180 professional employees who are solely dedicated to the practice of investment consulting.

NEPC's full service retainer relationships have ready access to NEPC's staff and resources, a high level of direct client contact with the Investment Committee and staff, and comprehensive investment consulting services. Our advice improves both the efficient operation and overall investment performance of our clients' investment programs.

NEPC offers a full line of investment consulting services. On an ongoing basis our investment consulting services address every phase of the investment process, including:

- Investment policy development and risk control, for both financial and alternative assets;
- Asset allocation, both asset-based and liability-driven which also includes risk budgeting, scenario analysis and liquidity analysis;
- Extensive experience and expertise in designing and implementing alternative asset programs;
- Innovative solutions to investment needs (private equity, real return, portable alpha, global asset allocation, hedging strategies, and risk budgeting);
- Investment manager and custodian searches for both financial and alternative assets;
- Due diligence on managers and investment products;
- Performance analysis for the total Fund, each asset class, and each manager;
- Implemented services, and;
- Client education.

4. Provide an organizational chart of your firm showing functions, positions, and titles of all key personnel involved in consulting services. Provide a brief description of the relationship between each component and the consultant(s) who would service the Retirement System.

We have provided organizational charts of NEPC in Tab 2. As mentioned in our response to question #2, NEPC has six consulting practice teams focused on different market segments (Taft-Hartley, Public Funds, Endowment/Foundation, Healthcare Organizations, Corporations and Defined Contribution Plans). NEPC's research department is recognized as one of the largest in the industry. NEPC also has a strong focus on portfolio construction, with an emphasis on risk management, which is evident in our dedicated research staff for asset allocation analysis and strategies. In addition to our robust research, NEPC also has a performance analytics team and administrative and operational staff members.

All of NEPC's retainer relationships are managed on a team basis. The team outlined in this proposal will work closely together to ensure that a) the collective expertise and experience of the firm is fully utilized, giving the Fund the best possible consulting advice, and b) there will be multiple individuals at NEPC who are intimately familiar with the Fund's portfolio.

Each client has a dedicated consulting team who will play an integral role in all of the tasks performed for the Fund. All of NEPC's clients are supported on a team basis, typically consisting of a "lead" consultant who will attend all meetings and be the point person in the relationship. In addition, a "backup" consultant is assigned to each relationship to ensure continuity of service. A consultant support analyst will also assist the consultants with ongoing projects and management of day to day requests. In delivering our consulting services, these team members will leverage the expertise of professionals in other areas of the firm as well.

5. Describe all of your firm's lines of business and the approximate contribution of each to the total revenue. If your firm is an affiliate or subsidiary of an organization, state percent of the parent firm's total revenue generated by your firm.

NEPC's sole line of business is investment consulting; as such, 100% of our revenues are from providing consulting services to our clients.

6. State what you believe distinguishes your consulting services from your competitors. Describe any services of your organization that may not be offered by other consultants.

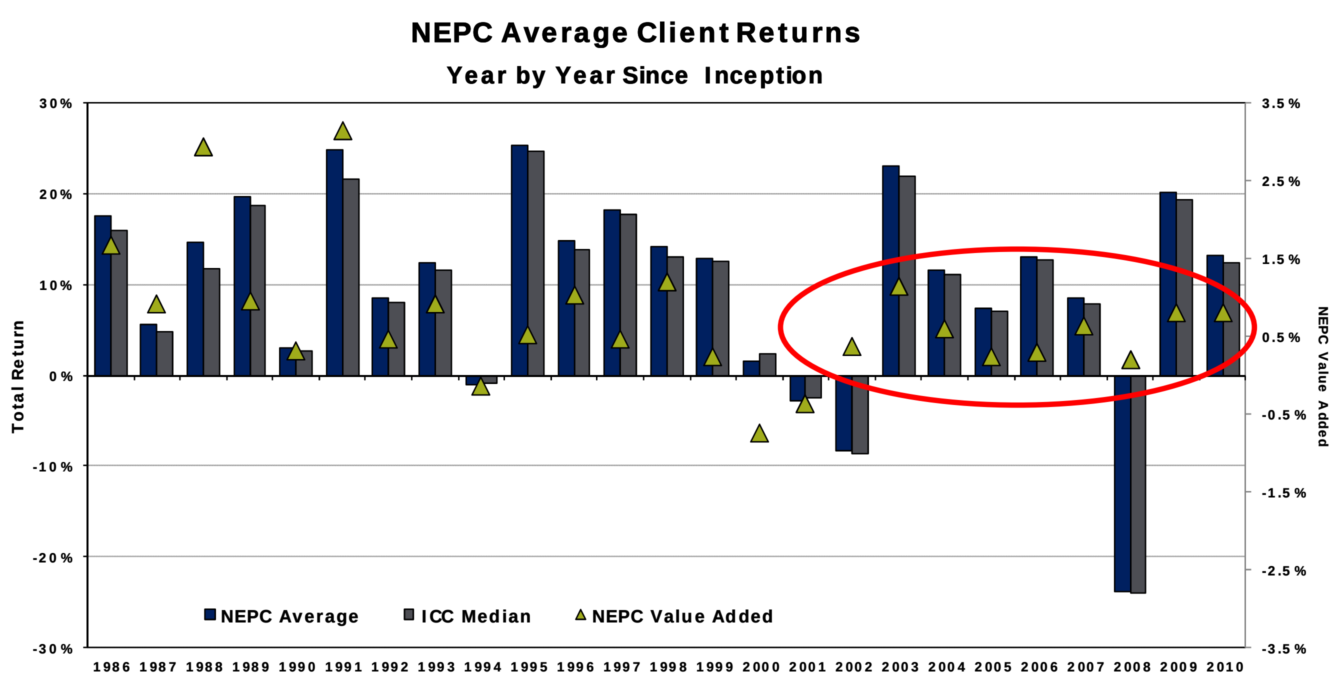
We believe the following six key factors distinguish NEPC from its competitors:

1. **True independence**- NEPC is an independent, employee-owned, full-service investment consulting firm. We don't manage assets, we have no proprietary products, and we are not affiliated with any investment funds. Consequently, we can provide advice that is unbiased, free of conflicts, and tailored to align with one thing—your goals.
2. **Informed innovation** - At NEPC, questioning leads to clarity, and clarity fosters breakthroughs. We respect conventional wisdom — when it's wise. Following a traditional path can be entirely appropriate in building a particular portfolio. That said, we don't shrink from breaking with standard methods when we think that a new direction offers a better approach. Expect our analysis to be thorough and our recommendations to be made with conviction.
3. **Robust customization** - Our clients demand more, and so do we. Each client is unique and, as a result, has unique investment goals. We listen closely and customize our solutions to pursue our clients' goals with intelligence and rigor. In fact, customization is an aspect of collaboration, as we see it, and it's a hallmark of who we are. From investment policy development and risk control to asset allocation, investment manager searches and education, we tailor every step of the process to you.
4. **Industry-leading consultants** - A consulting firm has one key asset: its people. Our consultants have to earn our clients' confidence, and ideally, long-term

relationships develop. NEPC has cultivated and recruited exceptional professionals with diverse strengths — seasoned experts who understand the complexities you face and how to navigate them successfully.

5. **Research-driven process** - Superior advice is grounded in superior research. With one of the largest dedicated research teams in the industry and an increasing focus on innovative strategies, our expertise spans asset allocation, traditional investments, and alternative strategies. Our research professionals specialize in particular asset classes and excel in assessing asset managers and their investment capabilities as well as market trends and new products.
6. **Demonstrated results** - We are proud to disclose the results we achieve for clients. Our innovative, research-driven recommendations, delivered by an experienced staff, have resulted in 22 out of 25 years of outperforming the national averages and a high level of confidence in NEPC.* **Table 1** below outlines performance in each of the last 25 years. While past performance is no guarantee of future results, we feel that this record is strong evidence of NEPC's ability to develop investment programs that as a group consistently perform well in a variety of market environments.

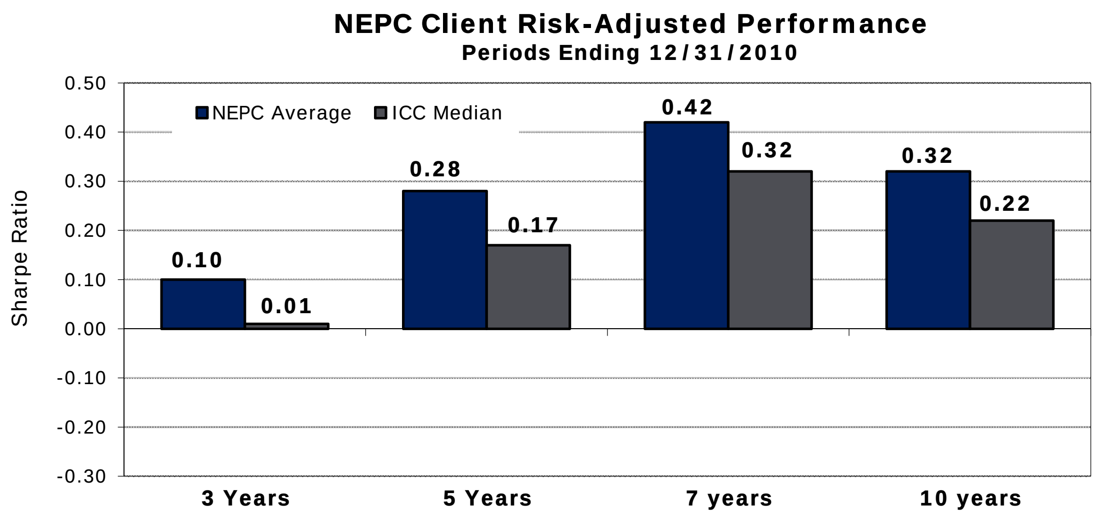
Table 1



Results are gross of manager fees. Past performance is no guarantee of future results.

While we are very proud of the investment returns of our clients, we also understand that risk is an important factor in any investment program. **Table 2** below shows the level of return earned per unit of risk (Sharpe Ratio) for NEPC's client base versus the overall ICC Median for the last three, five, seven, and ten-year periods as of 12/31/10. As the table shows, our clients' Sharpe Ratios have exceeded the median in each time period.

Table 2



Results are gross of manager fees. Past performance is no guarantee of future results.

Our record as illustrated above is excellent; however, we believe it understates the quality of performance earned by our clients. We say this because we enter the ongoing performance record of every client into the above comparisons after the first manager search is conducted or one year after we are retained, whichever event occurs first. Obviously, it takes more than one search to materially impact the performance of large investment programs; however, we wish to take a very conservative position in regard to the establishment of our performance record. Also, NEPC's client results are embedded in the overall ICC universe, so our performance relative to the other firms in the universe is actually more pronounced.

Our focus with clients is to provide customized solutions with an open-ended service commitment. While we have a viewpoint for how to increase performance returns across all of our clients' portfolios, we recognize that the investment products available may not be suitable for each client. We have worked with investment management organizations to create Global Tactical Asset Allocation and portable alpha products for our client base. We offer excellent educational services to our clients and quality products across all of our service offerings. We have designed educational seminars and retreats to serve the needs of individual clients. We routinely publish white papers on timely research topics and have research covering liability driven investing and infrastructure. Our 48-hour early warning letter is a due diligence service that we believe few other consultants offer.

*The national average is represented by the median fund in the $1.9 trillion ICC Universe.

Clients

1. For all general, full-service consulting clients with which your firm has a current contractual relationship, provide the following by category:

Size	Public Funds	All Other Funds
Less $100 M	4	57
$100 M - $500 M	16	101
$500 M - $1 B	4	34
$1 B - $10 B	26	49
Greater than $10 B	5	4

2. Provide a list of 3 current public fund general or full-service consulting clients with assets greater than $500 million for whom work similar to that requested in this RFP has been performed by your firm. Include name, contact person, telephone number, asset value, number of years they have been a client of your firm, and the services provided. The Fund may contact any of these clients as references. If you require advance notice of the Fund's intent to make inquiries, please so indicate.

Our clients are our only customers, and we have grown substantially through their referrals over the years. While we submit client references per your request, we respectfully request that you not contact them without notifying us first.

Anne Arundel County Retirement & Pension System	**Louisiana State Employees' Retirement System**
Mr. John R. Hammond Financial Officer Anne Arundel County Government 44 Calvert St., Room 410 Annapolis, MD 21401 (410) 222-1222 jhammond@aacounty.org Total pension assets: $1.4 billion Full service retainer client relationship established in July 2000.	Mr. Robert Beale, CFA, CAIA Chief Investment Officer Louisiana State ERS 8401 United Plaza Boulevard, 1st Floor Baton Rouge, LA 70809-2250 (225) 925-7156 bbeale@lasersonline.org Total pension assets: $9.2 billion Full service retainer relationship established in July 1993.

South Carolina Retirement System Investment Commission Mr. Hershel Harper Jr., CFA Deputy CIO South Carolina Retirement System Investment Commission 1201 Main Street, Suite 1510 Columbia, SC 29201 (803) 737-5901 HHarper@ic.sc.gov Total pension assets: $25.4 billion Full service retainer relationship established in October 2006.	

3. State the number of accounts, and value of assets represented in those accounts, lost during the last three years. List this for each one year period ending 2008, 2009, and 2010.

NEPC has proudly achieved a retention rate greater than 97% for each of the last 3 years for its target market (institutional clients greater than $100 million). In fact, less than 2% of NEPC's clients have rebid their contracts annually over the last 10 years. Despite these impressive statistics, we take our clients' happiness seriously and any client loss is significant. In addition to the annual Greenwich survey, we conduct a survey every two years to monitor our clients' satisfaction. In fact, our clients' satisfaction is a component of our firm-wide bonus program.

Reason for Termination*	Year 1** 2011	Year 2 2010	Year 3 2009
Outsourced the plan to a 3rd party	1	1	0
Rebid the contract and hired someone else	6	2	6
Organization change at client (merger, bankruptcy, etc.)	0	2	2
Resigned by NEPC	1	0	0
Total # of Clients	**8**	**5**	**8**
% of Total # of Clients	**3%**	**2%**	**3%**

* Lost clients represent all institutional clients with assets in excess of $100 million.
**All annual time periods ending in June of the respective year.

Additional details can be found in Appendix B.

Standards of Conduct

1. Has your firm adopted the Code of Ethics and The Standards of Professional Conduct of the CFA Institute? If so, how is employee compliance monitored?

Yes. NEPC has a Code of Ethics and has also adopted the CFA Institute's Code of Ethics and Standards of Professional Conduct. Both documents are part of NEPC's compliance program, which includes detailed policies and procedures as defined in our compliance manual.

The securities trading aspects of that code are formally monitored on a quarterly basis, as prescribed by the SEC. Further, each employee must attest in writing annually that they are in compliance with all aspects of the policy.

2. Describe your expertise in assisting clients in developing their own risk management procedures. Please indicate the names of clients and briefly describe the projects for which you have provided these services.

Risk management covers a broader variety of topics, but would start with the investment policy statement, which would help define risk in terms of the stated goals and objectives. Risk management also extends to a number of other areas where we can assist you:

- Manager Due Diligence: NEPC can provide manager write-ups and help you establish your own internal procedures for selecting and terminating managers:
- Manager Monitoring: Our detailed analytics can provide such items as performance attribution for your equity managers, quality characteristics for your fixed income managers, monitoring of your hedge fund of fund managers asset allocation as well as a variety of other tools.
- Portfolio Monitoring: We track the results of your policy target, the impact associated with asset allocation drift and the impact of active management so you can see what is driving the performance of your fund.
- Internal Controls: We would make our Chief Compliance Officer, Bill Bogle, available to assist you with developing the infrastructure surrounding the governance of your fund.
- Portfolio Hedging: We have experience developing portfolio overlays to help clients either adjust their asset allocation or to better hedge the liabilities. This could be a useful risk management tool that we could assist you with if desired.

We will review and prepare initial comments on existing investment objectives drafted by staff and outside managers that encompass the total fund, each asset class, and individual investment managers. We will give particular attention to areas where we believe current practice could be modified to improve the oversight and control function of the investment program, improve the expected return on the Plans' assets, or reduce the risk in your investment program.

A tool we use to help our clients set their investment policy is risk budgeting. Rather than focus on returns, we can measure the total portfolio in terms of each asset classes' contribution to risk. When considered in surplus space (assets and liabilities together) for pension plans, we can help a client determine the contribution to overall risk from interest rate exposure.

We feel that the risk budgeting approach can be used in a variety of ways in an investment program, such as determining the appropriate allocation between active versus passive management or the optimal use of portable alpha products. Risk budgeting informs the Trustees about the risk of not being "on benchmark" and is a useful tool in the day-to-day management of individual investment managers, but we are replacing it with risk management, a more effective tool in the evaluation of total fund performance and asset allocation.

One of our newer State Public Fund clients formerly used risk budgeting, an approach advocated by their former custodian. They are very pleased with our approach to the management of risk.

The use of risk management is increasing for plan sponsors, and NEPC has the experience and tools to assist our clients in this important area. Asset-liability studies have been the traditional tool for evaluating assets and liabilities together and such studies continue to be "best-practice." NEPC has hired actuarial analysts with experience in actuarial valuations to run our asset-liability analyses.

The duration matching of assets and liabilities has returned to the forefront, given the funding gaps that have developed with most pension plans during this decade. We believe that most investment programs should be designed with knowledge and consideration of the plan's liabilities and cash flows. At NEPC, we have traditionally conducted liability-driven asset allocation studies to link specific investment recommendations to the underlying liability structure of a plan, but now are increasing our focus on matching the duration of the assets with the duration of the liabilities to minimize fluctuations of the funded status due to interest rate changes. The prospective convergence of GASB and FASB, as well as the significant under funded status of OPEB obligations reinforces the prudence of this approach. While various smoothing techniques remain in place within the Public Sector, interest rate risk remains the single largest exposure in the funding of pension benefits.

Once the formal asset/liability study is completed and a revised investment policy approved for the Fund, we will revise the objectives for the individual managers for their review and approval. This will ensure an overall consistency of the Fund's objectives.

3. Is your firm, its parent, or any of its affiliates a registered investment advisor with the SEC under the Investment Advisors Act of 1940? If not, state your fiduciary classification.

Yes. NEPC is a Registered Investment Advisor under the 1940 Act as well as a fiduciary as defined by the Employee Retirement Income Security Act of 1974.

4. Within the last five years, has your organization or an officer or principal been involved in litigations, SEC investigations, or other legal proceedings relating to your investment consulting assignments? If so, please provide an explanation and indicate the current status or disposition.

Neither NEPC nor any employee of NEPC has ever been charged with any purported or actual violation of law by the SEC, the U.S. Departments of Justice or Labor, the Internal Revenue Service, or any other federal, state or local regulatory agency.

Through December 2008, after 23 years as an independent investment consulting firm, NEPC had never been party to any litigation. However, in 2009 and 2010 NEPC was included, along with dozens of other defendants, in litigation in Connecticut and New Mexico arising out of investment losses allegedly sustained by two of our clients. Details follow below. The most important element of our answer is the fact that no litigation against NEPC is pending.

First, one of NEPC's former clients, the Town of Fairfield, Connecticut and two of its pension funds ("Fairfield"), filed lawsuits against NEPC and numerous other parties in early 2009 relating to alleged losses suffered by Fairfield as a result of the Madoff fraud. NEPC was included in this litigation notwithstanding the fact that Fairfield's Madoff investment predated their decision to hire NEPC by more than 10 years; that Fairfield declined NEPC's proposal to provide investment consulting services for its alternative asset investments; that the due diligence responsibilities for the Madoff investments were the explicit responsibility of two successive feeder funds employed by Fairfield, Tremont and Maxam; and that Fairfield's Board declined NEPC's written recommendation in our very first meeting with their Board to reduce the Funds' commitment to the Madoff investment.

Notwithstanding these strong legal and factual defenses, NEPC decided in November 2010 to settle without proceeding to trial. In short, after reviewing NEPC's legal arguments, Fairfield presented NEPC with an opportunity to settle for an amount that was somewhat less than NEPC's anticipated legal costs merely to have completed our preparation for trial.

In connection with the settlement, Fairfield has withdrawn its claims against NEPC and has agreed to release NEPC from any and all claims it brought or could have brought in this case. NEPC, in turn, continues to explicitly deny any liability or wrongdoing in connection with the settlement, and does not admit any claim or fact alleged by Fairfield.

In early 2010, NEPC and dozens of other individuals and entities, including certain Trustees of our client, the New Mexico Educational Retirement Board ("NMERB"), were named in three civil cases arising out of losses allegedly sustained in connection with individual investments. We believed strongly that the allegations in these suits regarding NEPC were completely without merit, and that NEPC at all times fulfilled its responsibility to provide prudent and professional investment advice to the NMERB. We are pleased to note that the plaintiffs in two of these suits have voluntarily dismissed NEPC from their ongoing litigations.

The third case, based on the same investment, has been dismissed by the court, as has its initial appeal, and we are confident that when this case is finally concluded, we will prevail.

Conflicts of Interest

1. Explain in detail any potential conflict of interest that may be created by your firm's providing services to the Fund.

NEPC does not have any clients or associations that could present a conflict of interest or compromise the objectivity of its advice to our clients. We avoid the conflicts of interest that impact many consulting firms in our industry in the following ways:

- We do not accept any revenue from money managers in our client investment programs
- We do not provide brokerage services
- We do not offer actuarial services
- We do not accept or pay referral fees
- We do not accept finder's fees for placing managers
- We do not charge managers for inclusion in our manager search databases
- We do not accept or pay any soft dollars
- Our annual client conference is not subsidized by investment managers

Our business model has been designed to eliminate these potential conflicts of interests so that we can maintain our independence and objectivity.

2. Does your firm or an affiliate manage money for clients? Include also whether your firm or its parent or an affiliate is a broker/dealer. Do you trade for your client accounts through your own broker/dealer? Does your firm accept soft dollars as a method of payment for services provided? Do you use soft dollars to make payments for services received? What percentage of your clients has soft dollar arrangements with your firm?

NEPC does not manage money. We are not affiliated with any other organization. We are not a broker/dealer, and we do not accept soft dollars.

3. Describe how conflicts of interest among your consulting functions are prevented if your firm also provides portfolio management or brokerage services, or if your firm also provides consulting services to investment management companies.

NEPC does not provide portfolio management or brokerage services. Please refer to the next response regarding how we provide consulting services to the employee benefit plans of several firms whose parent or subsidiary organizations are in the financial services industry.

4. Describe in detail all circumstances under which your firm or any individual in your firm receives compensation, finder's fees or any other benefit from investment managers or third parties, and list all investment management firms or third parties from which your firm has received any compensation within the last five years.

NEPC receives no compensation of any type from the investment divisions of any money management or brokerage firm. We do, as would all firms offering retirement benefits to its employees, use the services of investment management firms to manage our employee Profit Sharing and 401(k) Plans. We also provide our consulting services to the employee benefit plans of several firms whose parent or subsidiary organizations are in the financial services industry. Both types of relationships are fully disclosed when NEPC conducts manager searches, and are listed below.

- NEPC provides its defined contribution consulting services to the retirement plan participants of Affiliated Managers Group (AMG). AMG does not manage investments, but has ownership positions in a group of midsize asset-management firms. The AMG subsidiary firms operate independently while AMG provides them with strategic, operational, marketing, and distribution support.
- NEPC provides defined benefit and defined contribution consulting services for the benefit of plan participants at TD Bank which has an investment management division.
- NEPC provides research and consulting services to Westwood Trust, a Texas Trust Company. The parent of Westwood trust owns a mid-sized asset management firm, Westwood Management.
- State Street Bank provides performance measurement and related data processing services to NEPC on a fully disclosed basis for a fee. That fee is based on the volume of reports ordered by NEPC for its clients each quarter.
- T. Rowe Price provides investment and record keeping services to NEPC's 401(k) plan. The 401(k) plan is self-directed; therefore NEPC does not compensate T. Rowe Price directly. Management fees are assessed to the participant accounts.

Staff and Consultants in the Firm

1. How many investment consultants does your firm have?

NEPC has a staff of 180 professional employees who are solely dedicated to the practice of investment consulting. Our 74 consultants include 47 consultants who work directly with clients and 27 consultants involved in asset allocation, traditional and alternative assets research.

2. Discuss the ways you manage growth, including any limits to the client/consultant ratio.

We believe that measured, thoughtful growth is critical to a consulting organization especially when there is a clear focus on maintaining a high level of client satisfaction. This growth allows us to increase our investments in technology, research, and human capital and provides opportunities for advancement across the organization.

Our growth has allowed us to dramatically increase our dedicated research group to 24% of our overall professional head count. This research staff has no explicit revenue support responsibilities, but rather focuses on the vetting of both traditional and alternative managers and strategies, asset allocation (currently four actuaries on staff), risk parity, scenario analysis, derivatives, overlays, and the like. This research commitment generates ongoing ideas and challenges old assumptions - creating proactive solutions for our clients. Our consulting staff also contributes to our research effort through manager research, asset allocation, idea generation, etc.

Our overall business plan has several important elements. Among its more important points are the following:

1. We wish to grow at a controlled pace. This involves maintaining the proper balance between our human resources, products and services, and the selective addition of new clients. We are very sensitive to the servicing requirements of current and prospective clients and have regularly turned down new business opportunities. In 2010, we declined 70 new business opportunities in order to maintain our service commitment to existing relationships.
2. We wish to continue our success at attracting and retaining extraordinarily well-qualified personnel. As our business has grown, we have added professional, technical and administrative personnel, both “home grown” and from our competitors (22 consultants and researchers have joined NEPC from competitor firms).
3. We will continue to enhance our client education programs, so that our clients can gain the knowledge and patience necessary to be good, long-term institutional investors.

The appropriateness of our business objectives has repeatedly been confirmed by our client referrals and client appraisals, which have ranked us in the top three in seven of the last eight years among the ten largest firms in the country in annual consultant surveys.

NEPC’s service commitment has improved as we have grown. Our consultants now average six accounts each, down from 18 in 1997. Overall client coverage has also improved, decreasing to three accounts per employee from four over the same period.

3. Describe your company philosophy for recruiting, hiring and retaining senior personnel.

Senior professionals are primarily hired through networking and executive recruiters. Investment consulting is a personal service business, so we must have extensive references from well known and respected colleagues prior to tendering an employment offer. Importantly, we have emphasized promotion from within for many years, and have grown a complement of consultants and senior consultants that is the envy of the industry. This home-grown talent has been augmented by professionals with significant investment consulting experience from 20 of our national competitors, a record without parallel in the industry.

We believe our unique ownership structure is critical to our retaining and attracting senior talent as well as incenting burgeoning leaders to remain at NEPC. In January 2008, NEPC converted to a Limited Liability Company (LLC) form of incorporation from our previous Subchapter S structure explicitly to provide NEPC’s newer Partners with materially enhanced ownership positions in the new partnership, thereby strengthening their financial incentives to continue our record of adding value to our client investment programs, maintaining our industry-leading client ratings and our overall leadership position within the investment consulting industry. This was perhaps the most important structural change in the history of our firm, and, with all partners signing on, we are highly confident that its overall objectives will be realized.

Additionally, our retention rates and the overall stability of our firm are enhanced by a wage system that compensates each salary grouping within our firm with median or higher pay levels relative to industry norms. Also, we have built an incentive compensation component into our bonus system based on maintaining our current levels of excellence in the annual Greenwich Associates Client Opinion Studies.

Lastly, our profit sharing and medical benefit programs were recently rated the most favorable of 16 comparable independent investment-consulting companies across the nation.

4. Describe how consultants and analysts in your firm are compensated.

All of our employees receive compensation in three forms: salary, benefits, and a qualified profit sharing contribution. Our key employees (Partners, Senior Consultants, Consultants and Senior Analysts) also receive bonuses, and Partners share in the earnings of the firm.

Salaries are standardized for each professional level within the firm. Bonuses are paid annually based on two criteria: 1) the employee's performance relative to a predefined job description and specific individual goals, and 2) the success of the firm itself. Both the determination of base salaries and bonuses are further predicated on client satisfaction with their servicing teams, as borne out by formal annual reviews by the senior partners within our firm, the annual Greenwich Client Satisfaction Surveys and our own biennial client satisfaction surveys.

Benefits are available after basic eligibility requirements have been met. The Company has consistently made profit sharing contributions for each employee after their first year with the company at the highest levels permitted by law.

Finally, selected senior employees from the consulting, analytical and administrative staffs of our firm participate in our equity program (the Partnership), permitting them to share the profits of the company and in the long-term appreciation of its equity. As mentioned earlier, our conversion to an LLC form of organization has materially enhanced the ownership positions of our newer partners, strengthening their opportunities to earn and enjoy somewhat higher levels of compensation.

NEPC participates in industry compensation surveys each year. These surveys confirm that our salary and bonus compensation levels rank above investment consultant industry medians in every wage category, and that our benefits (profit sharing, medical, etc.) are among the most attractive in the industry.

5. List the turnover of consulting and research personnel in the last three years. State the reason of departure for each.

Our consulting staff is one of the most stable in the industry (particularly for a firm of our size) with an annual consultant turnover rate of less than 6% over the last 10 years. On the other side of that equation, we have become the employer of choice within the industry, having attracted more than 20 professionals from our competitors, a statistic without precedent in our industry. This model has been in place for a more than a decade and is extremely successful. Ultimately, these externally-sourced professionals, coupled with the development of our internal resources, have enabled NEPC to offer a consistently seasoned service commitment to our clients in both our client-facing and research functions.

NEPC's Professional Staff Turnover*

	Year 1** 2011	Year 2 2010	Year 3 2009
Voluntary Departures	(2)	(1)	(1)
Managed Departures	(4)	(1)	(4)
Retirement	(2)	0	0
External Hires	5	12	4
Internal Promotions	9	2	6
Net Professional Staff Gains	**6**	**12**	**5**
Departure Rate	11.1%	3.2%	9.2%
Avg. Total Professional Staff	72	63	55

**Includes Partners, Senior Consultants and Consultants.*

***All annual time periods ending in June of the respective year.*

Additional details can be found in Appendix C.

Consulting Team

1. **Provide name, title, home office location, and biography of the key individual(s) who would be directly responsible for providing consulting services to the Fund, including what year the individual joined your firm, current responsibilities, areas of expertise, experience, education, professional designations, and memberships. Detail their roles and the scope of their involvement for this assignment.**

If we are chosen as your investment consultant, your service team will consist of Keith Stronkowsky and Rhett Humphreys from our Charlotte, NC office.

Your consulting team will play an integral role in all of the tasks performed for The Police and Fire Pension Fund of San Antonio. All of NEPC's clients are supported on a team basis. Mr. Stronkowsky and Mr. Humphreys will both be available to attend meetings and be the point persons in the relationship.

Keith Stronkowsky
Consultant

Keith's consulting responsibilities include servicing public pension funds, endowments, foundations, Taft-Hartley pension funds, and corporate plans. He assists clients with overall plan design, including investment policy development and asset allocation, manager selection and performance monitoring, as well as asset and liability studies in conjunction with risk budgeting. He is also a member of the GAA Advisory Group.

Prior to joining NEPC in 2008, Keith was an Officer in the PrivateEdge Group at State Street Corporation where he was responsible for providing private equity consulting and performance reporting for institutional investors. Prior to working at State Street Corporation, Keith was an Associate at PanAgora Asset Management in the fixed income and tactical asset allocation departments.

Keith received an M.B.A. from Case Western Reserve University and a B.S. from Springfield College. He is currently a Level III candidate in the CFA program.

Rhett Humphreys, CFA
Partner

Rhett started his investment career in 1996 and joined NEPC in 1997. His consulting responsibilities and background include servicing public pension plans, corporate pension plans, endowments, foundations, and Taft-Hartley pension funds. In January 2009, Rhett was nominated as the Public Plan Consultant of the Year by Money Management Letter.

In his research roles at NEPC, Rhett has authored several technical papers on small cap growth versus value investing, performance measurement, the Sharpe and Information Ratios, securities lending, and pension liability management. He serves as an advisor to the Alternative Asset Research Committee with particular expertise in Absolute Return and Portable Alpha program development. He is currently researching and writing a technical paper on "The Case for Leverage in Institutional Portfolios." He is also a member of the GAA Advisory Group.

Prior to joining NEPC in 1997, Rhett worked in Portfolio Accounting and Analytics with State Street Bank and Trust Company with over $1.6 billion of client assets under his responsibility. Prior to this, he worked in the Investment Division of the Louisiana State Employees' Retirement System (LASERS) where he reported directly to the Chief Investment Officer. Before this, he worked as a Policy Analyst Intern for the Public Affairs Research Council of Louisiana, where his research was regularly published. While at Louisiana State University, he was admitted to Beta Gamma Sigma, named Who's Who Among American College and University Students, elected as the Graduate Student Body President, and served on the Chancellor's Strategic Planning Committee. He is a veteran of the United States Army.

Rhett has earned the CFA designation and has a joint master's degree from Louisiana State University—a Master of Science in Finance and a Master of Public Administration. He also completed his B.A. in Sociology with a minor in Economics at Louisiana State University.

2. **State whether the individuals assigned to the work have any responsibilities other than providing consulting services, and if so, specify such responsibilities.**

Your investment consulting team is dedicated to the practice of investment consulting. Keith is also a member of the GAA Advisory Group.

3. What are the procedures for addressing this account when the lead consultant or other assigned personnel are unavailable?

NEPC has invested substantially in its information technology and communication infrastructure, including the use of Blackberries and video conferencing, allowing all of our employees to communicate and collaborate on client projects. It is a matter of policy that if a client were to leave a message with the assigned consultant, that they would respond within twenty-four hours, and if they are unavailable, will relay the information to the back-up consultant for follow up. In addition, our team-based service commitment ensures that clients can call upon more than one consultant that is familiar with your relationship.

Consultants are equipped with laptop computers so that they can have remote access to our network. Laptops are configured with the same capabilityand functionality as if they were in the office.

4. Describe your firm's backup procedures in the event that key personnel in this assignment should leave the firm.

All of NEPC's clients are supported on a team basis, typically consisting of a "lead" consultant who will attend all meetings and be the point person in the relationship. In addition, "backup" consultants ensure continuity of service in the event that the lead consultant is unavailable due to travel or other reasons. Typically, at least two of our representatives are present at each client meeting.

Significant controls are also in place to ensure that every account is handled properly. Our client base is split into smaller service teams, which are led by a partner with supervisory duties. Performance of each account, adherence to NEPC philosophy and standards and recent client meetings are reviewed. This level of oversight ensures that no consultant will provide service that is different than our typical high level of service. It also means that a high level NEPC employee is familiar with the account in the rare event of a change in consultants. Every report that goes before the Fund will be reviewed by two consultants and typically one or more analysts before being submitted for your review. Lastly, all client files, whether electronic or paper, are kept in secure common areas.

Research

1. Describe your firm's philosophy and resources, including the history of experience in the following areas:

- **Performance Evaluation and Reporting;**
- **Asset Allocation**
- **Investment Policy**
- **Manager Search (by asset class);**
- **Research.**

Our clients demand more, and so do we. Each client is unique and, as a result, has unique investment goals. We listen closely and customize our solutions to pursue our clients' goals with intelligence and rigor. In fact, customization is an aspect of collaboration, as we see it, and it's a hallmark of who we are.

Our investment consulting philosophy is centered on risk awareness. We always begin by assessing each client's ability to take risk and ask, "What can go wrong?" By understanding a client's goals, we can develop thoughtful asset allocation strategies to achieve our client's return goals within their risk tolerance.

Superior advice is grounded in superior research, and following a traditional path can be entirely appropriate in building a particular portfolio. That said, we do not shrink from assessing and introducing market innovations when it is a better approach. Expect our analysis to be thorough and our recommendations to be made with conviction. Our client portfolios are typically broadly diversified across the global landscape, across and within both traditional and alternative asset classes and strategies. We proactively build investment programs with long term strategic asset allocations; however, we will recommend that clients make tactical asset allocation shifts when significant opportunities or risks exist in the markets. By demanding more, we strive to continuously improve our clients' portfolios. For example, we have recommended that our clients approve an opportunistic allocation with a 0% target and a range of 0 – 10% to take advantage of opportunities in the markets. By demanding more, we strive for continuous improvement to position client portfolios for the future.

Because our independent approach adapts to the client's circumstances (not the other way around), we understand and can recommend structures within any asset class, capitalization and style. In fact, capitalization and style are critical to our manager selection process and to our construction efforts in building a well-diversified investment program.

Equities can include managers classified by market capitalization or style, all cap managers with the ability to add value tactically, long/short equity hedge fund managers, and international equity managers (established markets, emerging markets). NEPC's fixed income styles/asset classes include core, core plus, high yield, global, emerging market debt, and multi-sector (tactical allocation across global credit, high yield and emerging markets). NEPC's balanced styles include global asset allocation (managers have the ability to invest across multiple asset classes) and risk parity (managers seek to equalize the risk contribution from each invested asset class).

We build customized plans for hedge funds, real assets and private equity programs to ensure diversification by vintage year (for private equity and real estate) and sub-sectors for each asset class. Fund of funds, direct hedge funds or a combination can be used to implement the program.

In general, we believe active management adds value over index funds, but we do believe a portion of the portfolio can be invested in index funds in the more efficient asset classes.

We recommend investment in institutional mutual funds or commingled trusts over retail mutual funds. Institutional mutual funds and commingled trusts typically have higher minimums, lower fees, longer-term investment horizons and better longer-term performance than retail mutual funds. The portfolios are typically managed by senior investment staff and replicate separate accounts. Cash positions are minimized in these funds due to the long term focus of investors. Commingled funds are attractive investment vehicles for international investments due to the higher custody costs associated with foreign investments.

Forward-Looking Perspectives (Abilities Beyond Mean-Variance Analysis)

Our Partner's Research Committee (PRC) meets monthly to brainstorm and strategize about various opportunities in the market and processes that we could implement for our clients. The Asset Allocation team is charged with creating new tools each year to help improve the risk management and asset allocation process. Below are the tools used that go beyond mean-variance analysis:

- Scenario Analysis: Interest rate movements and asset class returns are modeled according to six economic scenarios (base case, expansion, overextension, stagflation, recession, and what we've coined as 'de-lev-flation'), which in turn have a direct effect on the asset portfolio and the liability estimates from year to year.
- Stochastic Projection: By utilizing software (ProVal from WinTech), we model a pension plan's actuarial liabilities, then project these liabilities along with the plan's asset allocation under various capital market assumptions. The output details the probability of various returns and outcomes, be they asset returns or plan funded status targets.
- Liquidity Analysis: Not only do we categorize the liquidity of each asset class into timeframes, but we analyze the sources and needs for liquidity under both normal and stressed environments to ensure that there will be enough cash on hand to pay plan benefits, as well as capital and margin calls.

Please refer to our response to question #1 regarding our performance measurement philosophy in the Performance Review, Analysis and Reporting section.

2. Describe the internal structure and organization of your research department. If no separate department exists, describe how this function is performed.

Research is a core commitment of NEPC. We recognize the benefit of dedicated research professionals and have consistently increased staffing levels in our Research Group. NEPC's Research Group is comprised of four teams: Asset Allocation, Traditional Manager Research, Alternative Assets Research, and Operational Due Diligence. Erik Knutzen, Chief Investment Officer, oversees our dedicated research group which consists of 40 investment professionals.

NEPC has created an asset allocation team to research and continually improve our clients' portfolio construction and performance. NEPC's Asset Allocation Team directs all of the firm's efforts in performing asset allocation and asset-liability studies, and leads the development of the firm's asset class return, risk, and correlation assumptions. We cover 22 asset classes and strategies within traditional research, and another 17 strategies within alternatives.

The Traditional and Alternative Research teams perform research in their specific areas and work closely with clients and their consulting teams. In addition, NEPC's Research teams are responsible for monitoring the investment environment for developments in new asset classes, instruments and strategies. More importantly, this research allows us to opine on the merit of adding new ideas to a portfolio and then provide these points to clients.

Our CIO, Mr. Erik Knutzen, CFA, CAIA, Partner, is responsible for leading the overall research effort and the development of the firm's investment strategy. Mr. Timothy F. McCusker, CFA, CAIA, FSA, Partner, Director of Traditional Research leads the Traditional Manager Research team and the Asset Allocation team. Mr. McCusker leads a team comprised of Ms. Donna Szeto, CFA, Research Consultant and Steve Gargano, Research Consultant (U.S. equity); Mr. Jeff Markarian, Research Consultant (global and international equity); Mr. Joel Paula, CAIA, Research Consultant (fixed income), and Mr. Ben Daly, Research Analyst (target date funds). In addition, Mr. McCusker is responsible for researching Global Asset Allocation and liquid Real Assets strategies. Within the Traditional Research team, Steve Gargano oversees the Manager Search team, which is responsible for facilitating the production aspects of the manager search reporting process within traditional asset classes, as well as insuring manager data integrity. NEPC's manager search team for traditional financial assets is led by Ms. Rosann Morello, Manager Search Supervisor, who is supported by four analysts.

Alternative manager research is led by Mr. Sean Gill, CFA, CAIA, Partner, Alternative Assets. Mr. Neil Sheth, Director of Hedge Fund Research leads the hedge fund investment research team. Mr. Eric Harnish, Director of Private Markets Research leads the private markets investment research team.

NEPC's Operational Due Diligence (ODD), led by Mr. William Bogle, Partner, Chief Compliance Officer, is separate and distinct from our investment analysis effort and focuses primarily on Hedge Fund and Fund of Hedge Fund managers and strategies. The ODD process starts with a detailed questionnaire that focuses on a firm's back office and infrastructure. An on-site visit to meet the operations team is required, and a report that summarizes the firm's capabilities is presented to our internal Alternative Assets Committee.

Our direct research costs exceed $6.6 million per year. State Street Bank, our report processor, spends over $3 million per year on technology and industry research on our behalf and that of the other investment consulting firms in the Independent Consultants Cooperative.

3. Describe the manner in which external resources and sources of information are used in the research process. How does your firm integrate internal and external research?

We are committed to providing our clients with the best possible investment research and resources, regardless of the source. Hence, based on the topic or need, we are equally comfortable developing our own original material, using external sources, or integrating the two, depending on which approach best serves the needs of our clients. In all cases, the final recommendations made to a client are our own, and reflect NEPC's independent view of what will best serve the interests of the client's investment program.

An example of how we integrate internal and external sources is reflected in our work on emerging market equity investing. Many external sources are available to help us quantify the investment environment for emerging markets investors. These sources include various US government or United Nations agencies, investment advisors, brokers, and custodian banks, to name a few. Hence, to educate clients on the role that emerging markets might play in their investment program, NEPC used these sources to develop general background, to identify the scope and characteristics of emerging markets investing, to identify alternative approaches, and to develop a solid "feel" for the challenge of successfully integrating emerging markets into a client's investment program. We did not reinvent the wheel. However, the final assessment of the potential risks and rewards to emerging markets investing, and the strategy's fit with the needs of any individual client is NEPC's alone.

More recently, our asset allocation research has been forecasting more subdued returns than from a traditionally diversified investment portfolio. For our clients to maintain some likelihood of reaching their return goals, more alpha must be generated by managers and more asset classes utilized. We convinced one tactical asset allocation manager to start two new global strategies to meet the needs of our clients. Further, we have embraced other tactical asset allocation managers who have allocations to real return assets such as commodities and inflation protected securities.

4. Describe the type, subject matter, and frequency of research provided to clients, and provide an example.

NEPC provides research to its clients on a wide variety of topics. We provide clients with ad-hoc research studies based on individual client needs. Additionally, we conduct asset class research that results in white papers and updating of our asset class assumptions. We also conduct client webinars on topics including our asset allocation assumptions and recommendations to clients and capital market events. We formally review our capital market assumptions on an annual basis and forward our thoughts to clients in the form of an annual memo. As conditions change throughout the year (the economy, capital markets and/or legislation) we communicate the changes to clients via memos. Our manager research team drafts memos for clients when there are changes at any of their underlying investment management firms. Our goal is to have a memo drafted for clients within 48-hours of learning of a change at an investment management firm. Our quarterly newsletter, Market Thoughts, is distributed to all of our clients and includes a narrative and quantitative description of market activities during the period.

NEPC’s manager research team is responsible for research and due diligence within assigned asset classes and strategies, assessing new products and technology. Special research projects are frequently undertaken in response to specific client requests or other issues that we believe are of interest or importance to our clients. We generally assign research duties to teams composed of analysts and consultants in line with the individual’s background experience and the topic being researched.

Generally, research is delivered electronically (by e-mail or the Internet). In addition, we offer a password protected client specific log in at the NEPC web site for client access. Each client can register online, and once they are approved, login using a password for private access to their reports and research.

You may go to our website http://www.nepc.com/research/ to view our Market Thoughts newsletters and for a categorized listing of research papers to discover which research papers pertain to you. We also have client webinars to discuss our research findings.

We have provided **Applying a Risk Budgeting Approach to Active Portfolio Construction** (December 2010) – Tim McCusker, CFA, CAIA, FSA, Partner, Director of Traditional Research for your review in Tab 3.

5. Does your firm have a process to allow the Fund to review alternative market conditions? If so, briefly describe.

We continually emphasize the need for our clients to clearly understand the risks associated with any investment recommendation or action. An effective way to communicate investment risk is to examine all relevant scenarios and their expected range of outcomes. It is also common NEPC practice to examine the chance of loss over various time periods and estimate their financial impact. NEPC encourages our clients to proactively make additional suggestions as they can only enhance the analysis of potential risk.

6. Describe your firm's philosophy regarding strategic versus tactical asset allocation.

We view asset allocation as a long term strategic target, with initial steps put in place to reach the final target allocation. That being said, we promote small tactical allocations to various asset classes when we see an opportunity in the marketplace. One example of this is our promotion of Credit Opportunities when credit spreads began to widen. Other examples are Debtor in Possession (DIP) and the Public-Private Investment Program (PPIP) opportunity which was available through Federal programs in 2009. In both instances, NEPC researched managers and had a vetted investment ready for clients early in the life of the opportunity.

We believe in both tactical and strategic approaches, but we believe that a "strategic" or long-term asset allocation methodology is the key determinant and driver of portfolio returns. We also recognize that short-lived opportunities can present themselves, and it is our responsibility to alert our clients to the existence of these opportunities. Typically, we recommend that clients include an allocation to "opportunistic" investments, the composition of which may vary throughout the economic cycle. There have been many instances, such as high yield and emerging market equity and debt earlier this decade, where tactical allocations have bolstered our clients' returns. In the current environment, we are suggesting to clients that there are numerous pricing anomalies to be taken advantage of, especially in the less liquid areas of the market.

NEPC maintains its recommendation for continued diversification and reduction of equity as the primary source of volatility in client portfolios. Yet we cannot ignore the opportunities that present themselves over time. Investors with patient capital can take advantage of their long time horizon and act as liquidity providers during this crisis. Those investors may profit most from the opportunities provided by it— in the words of Warren Buffet "to be fearful when others are greedy and to be greedy only when others are fearful."

With regard to shorter-term or "tactical" asset allocation decisions, we are proponents of global asset allocation (GAA) strategies. These strategies permit professional adjustment of overall plan structure, based on the investment guidelines of the plan as well as which asset classes are "cheap" (desirable) and which asset classes are "expensive" (undesirable). GAA also results in the placement of the fiduciary responsibility for these asset mix changes (within policy limits) on the shoulders of professional money managers, rather than a fund's trustees.

7. Is your firm capable of performing asset/liability modeling studies? How many certified actuaries does your firm employ that work in this area of your firm's research?

We generally conduct an asset liability study at the onset of new client relationship, and on average about every four years after that. Therefore we will typically perform 40-60 full asset/liability studies annually. Our asset allocation team of employees with actuarial experience conduct all of our asset/liability studies. We have also been in the forefront of the industry regarding LDI investing with approximately 50% of our corporate clients adopting LDI. While most public funds have not adopted this approach, our work on asset/liability matching and surplus optimization has been very helpful for our public fund clients.

NEPC's Asset Allocation Team directs all of the firm's efforts in performing asset allocation and asset-spending policy studies, and leads the development of the firm's asset class return, risk, and correlation assumptions. NEPC is unique among other consulting firms in that it has professionals dedicated to the research of asset allocation. Since asset allocation is the primary driver of success, we believe it is important to understand, analyze and challenge assumptions to create better portfolios. We do this by staffing this team with very senior members. The following is the team of individuals:

- Timothy McCusker, FSA, CFA, CAIA, Partner
- John R. Minahan, Ph.D., CFA, Senior Investment Strategist[1]
- Lynda K. Dennen, ASA, EA, Research Consultant
- Mark Cintolo, Senior Analyst
- Mario Tate, Senior Analyst
- Asset Allocation Committee, chaired by Christopher A. Levell, ASA, CFA, CAIA, Partner, with representatives from Research and Consulting

- [1]A long-time employee of NEPC and current faculty member at MIT's Sloan School of Management, is engaged as an independent consultant to NEPC.

We do not have an actuary on staff, though Mr. Christopher Levell, ASA, CFA, CAIA, Partner; Mr. Paul J. Kerry, ASA, EA, Senior Consultant; Mr. Timothy McCusker, FSA, CFA, CAIA, Partner, Director of Traditional Research; Ms. Lynda Dennen, ASA, EA, Consultant; and Mr. Mark Cintolo, Senior Analyst are actively involved in these studies and/or have formalized actuarial training.

NEPC believes that it is important for all of the professionals retained by the client to work as a team. As such, there is not a single asset/liability study that we have performed where we did not involve the client's Actuary in the process, from start to finish. Relationships with actuaries are critical as NEPC believes that proper guidance regarding the investment of assets cannot be given without a firm understanding of liabilities.

Investment Policy Development and Review

1. Describe your philosophy and process for development of:

- **overall investment policy as well as investment policy for specific asset classes**
- **client investment objectives, especially public pension clients.**

NEPC will work with Fire and Police Pension Fund, San Antonio to develop and/or refine an investment policy statement within the first three months of the relationship. By doing this, we will provide data, analysis, and recommendations on the establishment of the objectives of the investment program after going through an evaluation of your goals and objectives. We will review and prepare initial comments on existing investment objectives drafted by staff and outside managers that encompass the total fund, each asset class, and individual investment managers. We will give particular attention to areas where we believe current practice could be modified to improve the oversight and control function of the investment program, improve the expected return on the Fund's assets, or reduce the risk in your investment program. Once the formal asset/liability study is completed and a revised investment policy approved for the Fund, we will revise the objectives for the individual managers for their review and approval. This will ensure an overall consistency of the Fund's objectives.

NEPC will work with the Fund to develop individual guidelines and restrictions for each of the Fund's investment managers and asset classes as well as reporting requirements to the Fund. Guidelines would include benchmarks, permissible securities, maximum cash positions, duration and quality guidelines for fixed income securities, and social restrictions, among others. NEPC creates investment guidelines for nearly all of our 300 clients, and we are knowledgeable of the ways guidelines can and should be structured to maximize total return and flexibility without hamstringing the manager's capabilities. As all investment managers have different strengths and capabilities, NEPC would work with the Board and the individual investment managers to create a mutual agreeable set of guidelines for each investment manager in the program.

We believe that a well-conceived investment policy statement is the cornerstone of a successful investment program, and provides a beneficial element of continuity. The development of an appropriate policy involves the management of competing interests. Critical inputs include: the Board's and staff's risk tolerance, legal constraints and investment restrictions, funded status, liquidity needs, stability of returns and time horizon. We would begin our relationship by reviewing the Fund's existing policy statements, and suggesting changes and enhancements. This type of effort is important, since the policy is the vehicle that we use to truly customize each investment program to the unique needs, risk tolerances and return requirements of each client.

2. Outline your process for analyzing a client's investment portfolio structure.

Our investment strategy is centered on the concept that the primary driver of returns is asset allocation and plan structure. As such, we are strong believers in broad, global diversification. We are very proactive in encouraging our clients to diversify across markets, across asset classes and within asset classes. We believe that the addition of dissimilar and often non-traditional asset classes into an investment program can effectively improve returns while keeping risk at the same or lower levels.

The process of analyzing a client's investment portfolio structure begins with a review of the Fund's current investment policy statements' goals and objectives and current strategic asset allocation targets. An asset/liability study is conducted to determine the optimal mix of assets forecast to meet the target return goals. We analyze the impact of the asset mix on the Fund's funded status and contribution levels. The target asset allocation is reviewed on an annual basis through an asset allocation study to confirm that goals and objectives are still attainable. The asset allocation study incorporates our current forecasts for return, risk and correlation of asset classes. A full asset/liability study is conducted every three to five years unless there are significant changes in the plan demographics, benefit provisions or assumptions.

In our experience, the number of asset classes, styles and investment strategies is the dominant determinant of the number of managers employed.

However, many factors influence the number of managers used by an investment program. Generally, the larger the program, the more managers will be retained by the program, primarily as a means of increasing overall levels of diversification. We typically would not endorse adding a manager to a program if: 1) that manager did not enhance the overall risk-adjusted return potential of the fund, or 2) the manager's strategy was only available via an expensive or otherwise inappropriate vehicle such as a retail mutual fund. We seek to balance the need for diversification with the desire to realize economies of scale to reduce fees.

We place significant weight on the existing roster of managers for new clients. We are very aware of the transition costs involved with hiring and firing managers and do not believe in replacing a new clients current managers with our recommended managers simply to make changes. We want to understand each existing manger, their role in the portfolio, and their skill set. Only if there is a problem, or a demonstrably superior manager would we recommend a change.

Regarding statistical analyses, we believe that we are one of the few firms in the industry to take asset class correlation analyses down to the manager/strategy level. When evaluating the Fund's investment managers, we have two major objectives. The first is to identify each firm's fit with our client's needs and objectives. Accordingly, we are constantly searching for the marginal manager who best fits with the existing complement of managers and strategies in the program. The second objective is to identify the strengths and weaknesses of each manager to determine whether there is an information, process or people advantage that will enable the manager to outperform over the long term. We believe this extra step is a primary reason why our clients continue to enjoy excellent total returns and risk-adjusted returns.

Once the overall portfolio structure has been approved, we will develop a transition plan, if necessary, that will show the sources of funds, the timing to implement the new asset allocation and the timing for any manager searches to be conducted.

Lastly, when implementing our philosophy we go slowly to ensure that everyone involved in the decision making process understands the risk/reward tradeoffs. Equally important is that allocations to new asset classes are often phased-in to take advantage of dollar-cost averaging principles.

Investment Manager Database & Research (Traditional and Alternative)

1. Does your firm maintain an in-house database of investment managers? If not, from what vendor do you purchase the database?

NEPC has created a unique and robust internal database. This database houses our due diligence observations and assessments, including our one-on-one manager meeting write-ups, investment theses, and key historical data regarding products, personnel, organizational changes and our own 48-hour notification letters. In addition to this sizeable universe, NEPC uses a variety of databases in its manager search process, including our ICC database, the eVestment Alliance (eA) database, and Morningstar.

2. How many traditional managers and how many products are included in the database the firm uses?

The following table contains a representative list of universes, portfolios, firms, etc.

Universe Characteristics			
	ICC Universe	eVestment Alliance	
	Portfolios*	Firms	Products
US Equity	5,420	1,096	4,000
US Fixed Income	3,518	429	1,987
US/Global Balanced (ICC)	990	111	198
International Equity - Developed	1,896	325	746
International Fixed Income	43	28	39
International Balanced (see US Balanced for ICC)	N/A	3	3
Global Equity	322	443	1061
Global Fixed Income	307	152	460
Global Balanced (see US Balanced for ICC)	N/A	120	207
Emerging Markets Equity	485	187	329

Emerging Markets Fixed Income	53	79	160
Real Estate	1,097	101	162
Target Date (see US Balanced for ICC)	N/A	31	404
Target Risk	N/A	15	55
Other (ICC: Mortgage, Stable Value, Venture Capital, Private Equity, Hedge Funds and Cash. eVestment: Cash, Stable Value, Infrastructure, Alternatives/Hedge Funds)	5,424	N/A	N/A
TOTAL	**19,555 Portfolios** **1,186 different managers**	**2,021****	**9,811**

*Data from ICC "Available Samples" (as of 12/31/10)

**Represents one count of an individual manager in the above categories. Data as of 8/1/11.

3. **If the database you use is proprietary, describe the risk management procedures that been implemented to protect it.**

Please refer to our response to question #1 regarding the external databases NEPC uses. For our internal database, NEPC will maintain the confidentiality of the Fund's records and data, which will not be sold, shared, or otherwise disclosed to other companies or individuals.

NEPC's physical premises are secured behind locked doors. All employees wear photo I.D. badges which allow them to enter the NEPC offices. All guests enter through a single reception area which is attended by a receptionist during normal business hours and locked during non-business hours.

Client account numbers and related information are secured from general access through password protected technology within the company, and no account number information can be downloaded onto portable technology. Only authorized users have access to client account numbers and authorization processes, and all authorizations require two authorized signors before execution.

4. **Describe how your firm gathers, verifies, updates, and maintains the data collected on managers for the database. Please include how often the databases are updated, how often the staff visits managers and the nature of the visits, and whether your firm uses surveys in evaluating managers in the database.**

NEPC uses our internal ICC reporting system and eVestment Alliance (eA) database as the primary sources for our manager research effort. The ICC system contains quarterly data on 1,186 different managers running over 19,555 portfolios, encompassing over $1.9 trillion in "live" assets. The eA database is populated by investment managers. The ICC is populated by data from custodian banks and our internal database is populated with our internally developed investment theses and impressions on investment managers and their products. NEPC verifies the data by looking for anomalies in returns and patterns of return. If we find differences we will contact the manager directly to understand the reason for the differences or to determine whether an error has been made. Our researchers update their notes on managers throughout the year. By combining all of these sources of input, NEPC gains a powerful advantage in the research process, auditing the manager-supplied data with actual results from client portfolios.

This data collection platform provides the quantitative manager and product data, accessible in a standardized electronic format that can then be utilized as part of NEPC's proprietary manager product screening process. This platform also allows data to be downloaded into NEPC's performance analytics systems to enhance client reporting.

NEPC conducts over 2,000 manager meetings with as many as 900 firms per year in their offices and our offices. We cover all asset classes, emphasizing "Focused Placement List" managers, the highest conviction managers with whom we have met and believe have investment theses that present a competitive advantage in their respective areas of opportunity. Each meeting is thoroughly documented in our due diligence database. Our analyst write-ups are critical in tracking historical changes and opinions on managers.

5. **Do you or the vendor you use charge direct or indirect fees for investment managers to be included in the database? If so, describe the fees.**

   No.

6. **With regard to "Alternative Assets" (broadly defined as Real Estate, Private Equity, and Hedge Funds), describe your firm's research facility for each area.**

   NEPC has significant experience building alternative assets programs and identifying high quality private equity, hedge fund, opportunistic and real assets managers for our clients' alternative investments programs. NEPC has been actively working with client investments in alternative assets for the past 17 years and has the commitment, experience, and research resources to meet all of your alternative asset consulting needs. We work with $61.5 billion in committed/invested alternative assets across over 200 clients. In 2010, NEPC conducted 157 alternative searches totaling $5.6 billion in assets. Indeed, this focus and the excellence of our research resources were recognized in 2009 when NEPC was recognized by PLANSPONSOR magazine when we were awarded the prestigious "Alties" award as the Alternative Asset Consultant of the Year. Moreover, NEPC's alternative asset capabilities have been ranked among the top of all of our competitors for the past six years, in the most respected independent survey of investment consultants in the industry. Our alternative assets services include: education, portfolio design, manager search, due diligence reviews, and monitoring/reporting.

   We currently have 22 full-time individuals dedicated to Alternative Investments led by Mr. Sean W. Gill, CFA, CAIA, Partner, Alternative Assets. The Alternative Assets Group is broken down into two principal components, Private Markets and Absolute Returns.

Mr. William Y. Bogle, Chief Compliance Officer, and one other individual focus on the operational due diligence of the entire alternative assets spectrum including private equity, hedge funds and prime brokers.

Of special interest, NEPC is recognized by the Chartered Alternative Investment Analyst (CAIA) Association as one of the leading consulting firms in the program. NEPC was one of the first firms to embrace the program with Mr. Gill's induction in the inaugural class of 2003. Currently, NEPC has 32 CAIA designees on staff and 21 professionals pursuing the designation.

While we do not seek to overwhelm you with research articles and white papers, you can peruse our website and read NEPC's "letters of action" to clients over the last five years that illustrate our commitment to alternatives research. We have consistently and proactively recommended placements across the alternative asset spectrum including: hedge funds, private equity and debt, global asset allocation strategies, real assets (including real estate, timber and commodities), portable alpha, etc. We are well suited to help your Plan evaluate the use of alternatives, and if appropriate based on your needs and objectives, assist in the development of your alternative assets program.

Private Equity

Our services for private markets include developing the investment policy, overall allocation and strategic (implementation) plan, manager search, performance monitoring and education. We believe that a private equity program should be diversified by vintage year, strategy, investment stage, geography, and industry sector. We believe a well-balanced program should include a mix of early stage venture capital, later stage venture capital, mezzanine debt, and leveraged buy-out (small, mid-size, and large buy-out) managers.

By combining differing strategies we seek to maximize each client's long-term alternative assets objectives. NEPC has developed a large database in Private i which we use to track approximately 1,177 partnerships, in 766 unique distinct funds managed by 370 fund managers on behalf of our clients. Private i tracks the cash flows of not only each partnership in the program, but the underlying portfolio companies as well.

NEPC strives to educate decision makers about the appropriate uses and potential risks of the asset class. NEPC works with clients to execute the private equity program through manager searches to find the best qualified, most appropriate private equity managers for our clients' plans. Following the investment in a private equity manager, NEPC will closely follow the progress of the manager and provide clients with performance measurement analytics (such as IRR, Distribution to Paid-In Capital multiples, and other measures of performance) and periodic updates on the managers' progress, including information obtained from frequent conference calls and attendance at annual meetings.

In addition to analyzing investment opportunities within the context of a strategic plan, NEPC creates ***Market Surveys*** for sub-strategies (i.e., mezzanine, royalty/revenue interests, secondaries, distressed, etc.) within the private equity market. These market surveys describe the strategy including the sources of return, the risks, and the size of the sub-strategies. It also segments and catalogs the opportunity set of managers known to be pursuing the sub-strategy. From the market survey, NEPC looks to create a focused list of opportunities suitable for further evaluation and, ultimately, recommendation to clients.

For individual, specific opportunities, NEPC's private equity and consulting team tends to work in concert with the Plan's staff to evaluate individual limited partnerships. As part of NEPC's due diligence process, the team generates an Alternative Investment Memorandum (AIM) for each investment opportunity which is then reviewed by the NEPC Alternative Assets Committee (AAC). The purpose of the Alternative Assets Committee is to provide a quality control for investment recommendations prior to those recommendations being promulgated to clients. Generally, the Alternative Assets Committee meets on a bi-weekly basis.

The types of investment vehicles available to investors include separate accounts, fund of funds, direct funds and co-investments. The specific investment vehicle used will primarily vary by client needs, time commitment, and resources. Further, the types of investment vehicles used may vary by strategy and investment opportunity.

Hedge Funds

Our hedge fund consulting is significant and comprehensive. Our resources enable us to be one of the few investment consulting firms to employ multiple strategy specialists (a credit specialist, a macro specialist, an equity linked products specialist, etc.). In a world where complexity is only increasing, we feel this is very important to creating an effective hedge fund structure.

Hedge funds can be used in many ways throughout the portfolio. NEPC often integrates hedge fund allocations as part of the traditional asset allocation in order to capitalize on market efficiencies. We consider the delineation between some 'hedge fund' strategies and long-only strategies to be superfluous and, as such, evaluate the strategies based upon risk. NEPC's integrated research platform and dedicated asset allocation team, allows us to think progressively about the use of hedge funds in our clients' portfolios.

Of course all of this is only possible if we are able to communicate and educate our clients effectively. We conduct customized education programs for our clients which we view as an ongoing process. We believe every hedge fund portfolio is a customized process and should take into account the unique needs of the clients as well as the overall portfolio structure (traditional, non-traditional, liquid, illiquid, etc.). Communicating the unique role of these investments in a specific portfolio is critical to its success.

With this in mind, we seek to develop a portfolio of hedge fund managers with different objectives, styles, and volatility. We will work with our clients to customize the hedge fund program to include hedge fund of funds, direct, single strategy hedge funds or a combination of both. We will also work with our clients to determine if long biased long/short equity managers should be part of the overall equity allocation.

GTAA

NEPC has long been a proponent of GTAA strategies in client portfolios, because we believe that tactical asset allocation can add significant returns over a static policy. In general, we believe that investment managers are best equipped to act on market information and capture tactical opportunities.

Real Estate

NEPC has recommended that its clients hold diversified investment portfolios. These recommendations include real estate where appropriate. Our belief is that an investment in real estate should be made within the context of the structure and goals of the overall Fund. NEPC will seek to understand what role, if any, real estate should play in the portfolio and, working with the board and staff, develop a plan tailored to meet the risk, return and liquidity requirements of the portfolio.

Real Assets

NEPC is a proponent of Real Assets and believes it can play an important role in investment portfolios to help preserve the purchasing power of assets during periods of higher inflation. In fact, not only do we have individuals dedicated to real assets but we have two individuals dedicated to just real estate investments. Based on a client's goals and objectives as well as liquidity requirements, we will create a portfolio of diversified real assets across the spectrum of liquid (global natural resource stocks, commodities, global TIPS) real assets and illiquid real assets (real estate, timber, energy private equity investments).

Oil/Gas Partnerships

NEPC is experienced in evaluating oil and gas partnerships as part of a larger energy investment strategy that not only includes upstream, midstream and downstream oil & gas partnerships, but also includes partnerships that invest in renewable and clean tech energy companies. NEPC views energy investments as a valuable investment strategy for adding diversification to an investment program, while also providing supplemental benefits as a potential inflation hedge. When compared to other strategies in a private markets portfolio, traditional oil and gas investments, particularly in the midstream and mature upstream, have the potential to produce stable investment returns with relatively lower volatility. These can be very effective investments in reducing a private market investment program's J-Curve and providing a source of current income. Downstream exploration, production, renewable and clean tech energy investments have a higher risk given their development stage and their relatively large capital expenditures. Accordingly these investments have a greater potential for capital appreciation over the long-term. By utilizing a diversified approach within the energy strategy, NEPC believes that investor's may attain stable cash flows by utilizing investments in established cash generating operations and may also have a stake in opportunistic investments that have a low hit ratio but may provide large returns in a small number of successful ventures.

Timberland / Farmland

NEPC views timber and agriculture investments within the context of a diversified real assets allocation. For smaller clients, this exposure can be achieved through fund of funds, whereas larger clients may look to have stand-alone allocations to specific timber and agriculture managers. Timber and agriculture typically have low returns (5-10% real return) with long investment horizons (funds typically last 15 years), with low correlation to stocks and bonds, but high correlation to inflation.

NEPC research believes that while timber has become relatively better valued, there may be more pain in the industry in the next few years. Specifically, while timber commodity prices have declined due to the recent decline in construction, the underlying timber land prices have been slower to adjust downward and may still be overvalued.

The universe of investable timber managers is limited; that of dedicated agriculture managers is even more so. Timber strategies can be segmented by geography (US/International), asset type (hardwood/softwood) and by strategy (a focus on organic growth versus other sources of return such as conservation easements, real estate development, and other ancillary income sources such as hunting licenses). Those with more of a focus on organic tree growth can be characterized as lower return and lower risk, but a higher "beta" to timber prices. Those with a focus on other strategies may be considered less of a pure timber play, with a higher risk/return potential. Certain non-US markets exhibit higher-growth potential, but with greater risk relating to currency, political issues, etc. The investable universe for agriculture is even smaller than that of timber, although there have been some new entrants in the space over the recent years. Some managers focus on one asset type (specific crops such as grapes, corn, soybeans, etc.), whereas others are more opportunistic and create portfolios with more diversified asset types and uses.

Search & Due Diligence Process

Over the past three years we have completed over 588 alternative assets searches totaling $13.6 billion. Upon determining clients' needs through the formal adoption of a plan, NEPC looks to execute that plan by identifying and helping our clients select appropriate investment managers.

To identify appropriate investment managers, NEPC works with clients to develop preliminary guidelines and criteria for candidate managers. These guidelines and criteria include stability of the organization, investment performance, consistency of the track record, professional staff experience and years with firm, assets under management, and appropriateness of terms. Next we would perform extensive due diligence on those managers passing the initial screening criteria. This would include a personal assessment of each firm's organization, staff, investment process, philosophy, track record, access to deal flow, and due diligence capabilities, through in-depth meetings with the investment professionals of the manager. With respect to hedge fund of fund managers, while we generally do not directly review every underlying hedge fund, we use these conversations with managers to gain an understanding of the managers general thought process and knowledge in selecting the underlying funds. This may include discussions of certain specific hedge funds to understand the hedge fund sourcing process, the hedge fund evaluation and due diligence effort, and the portfolio construction techniques that a manager uses.

Additionally, NEPC looks to provide a thorough quantitative evaluation of each manager. For private equity managers, NEPC evaluates the cash flows of each investment made by the organization to determine the key drivers of performance, such as key people, geography, industry, stage, size, style, and structure. For hedge funds, NEPC looks at the stability of the returns, the types of strategies and trades utilized, and drivers of returns.

NEPC maintains multiple avenues for investment opportunity sourcing. NEPC currently tracks more than 600 alternative asset managers and funds who manage assets on behalf of our clients. Additionally, we have access to private equity cash flow and performance data provided by Thomson Reuters and State Street Investment Analytics and utilize the PerTrac Fund database, each of which contains information on thousands of other funds and managers. Additionally, senior staff participate in numerous conferences throughout the year and serve on several educational committees which provide access to many new and emerging alternative asset managers. Furthermore, NEPC maintains an open-door policy for managers and receives leads on potential fund managers from clients. Consequently, we have a robust pipeline of available opportunities in the market.

To enhance our knowledge of managers, NEPC prepares *Due Diligence Questionnaires* for manager candidates requesting detailed information on the company background, organizational history, assets under management, professional staff breakdown, investment strategy and focus, investment process, product structure, and performance. These questionnaires help us understand the manager's process in more detail than the offering memoranda and marketing material permit. However, we do review the pitch books, private placement memoranda, limited partner agreement, and subscription documents, as well.

We seek to conduct on-site due diligence interviews with managers. There, we try to better understand both the investment process and the business execution risk of a candidate manager. Understanding issues such as compliance management, legal capabilities and portfolio monitoring is very important before recommending a manager to our clients. Furthermore, it is beneficial to meet more junior staff and other staff members who often can give us a better sense of the entire organization. Frequently these interactions require multiple visits to the managers' offices over multiple days.

Our research group has a budget to conduct a certain amount of on-site manager research every quarter. We have sent our analysts to cover managers in the major financial centers in the U.S., Europe and recently Emerging Asia and continue to dedicate even more resources to this effort as we grow. Whenever we visit a client, we always try to schedule as many manager meetings around the client meeting as possible, maximizing the benefit from each trip we make.

Upon completing the work on a manager, a formal investment memorandum is prepared for the Alternative Assets Due Diligence Committee. The due diligence process is overseen by NEPC's Alternative Assets Committee, which is made up of the key professionals involved in evaluating alternative assets, in addition to other senior (and very experienced) members of the consulting staff. The Committee is ultimately responsible for vetting any manager that is to be recommended to NEPC's clients, as well as those that have already been retained by our clients. This Committee allows NEPC to lever the deep resources of our consulting staff, while ensuring that each manager we recommend is thoroughly and consistently evaluated.

7. How many searches did you conduct in each area in 2010? List this by asset class for traditional managers and for Alternatives, list by Real Estate, Private Equity, Hedge Funds, and (including fund of funds).

The following is a list of the searches and reviews initiated in 2010 by asset class. Importantly, these placements are typically to expand the diversification characteristics of new relationships and to replace under-performing managers placed by predecessor consulting firms.

Searches By Asset Class:	2010
Large Cap Equity	27
Sm / Mid Cap & Mid Cap Equity	17
Small Cap Equity	34
Misc. Equity (All Cap, Passive Index, Sector / Specialty)	5
Fixed Income	73
High Yield Fixed Income	8
International Equity / Global Equity, Emerging	110
Global Bonds / EMD	44
GAA / TAA (Includes Better Beta and Life Cycle)	46
Market Neutral	0
LDI	6
Alternatives* (includes Portable Alpha)	157
Total Searches and Reviews	527
Total Assets Placed (billions)	$23.4

*Alternatives includes: 66 Hedge Fund searches, 39 Private Equity searches, 22 Real Estate searches, 28 Commodities searches and 2 Credit Opps/DIP searches.

8. List your firm's Alternative Asset Research organizational chart.

We have provided our research organizational chart in Tab 2.

Investment Manager Searches

1. Describe your philosophy and methodology used in evaluating and selecting investment managers.

NEPC seeks to identify top tier investment managers through the **ongoing** work of our experienced and dedicated 40 person research staff. In other words, our search for a manager does not begin with the client assignment. It is a thorough, vetted and continuous process and is detailed below.

1. NEPC's search process begins with our research team screening both our proprietary internal databases and external databases for candidate managers that meet the Client's/NEPC's internally developed minimum criteria. The parameters take into account the uniqueness of each asset class along with the type of managers our clients may possibly need. If a manager meets the initial screens, our analysts consult both the SEC database and our internal Due Diligence database to identify whether there are any outstanding issues with the manager. From there we can identify how many managers will qualify for a given criteria set.
2. Next, our asset class specialists conduct a performance review by utilizing our internally-developed Performance Analytics Statistical Software (PASS), eVestment Alliance and StyleAdvisor. The PASS system allows NEPC to compare investment returns across the full spectrum of investment styles including fund of funds, direct funds and traditional investment managers. Importantly, the system allows for the examination of each candidate manager's excess return stream, or "alpha", over time. PASS allows us to contrast each manager's true, embedded beta to a variety of market factors and helps rank managers according to an array of customizable criteria.
3. Once we have isolated a set of managers for further analysis, the asset class specialists meet with the managers to assess the investment team, understand the firm's business focus, review investment philosophy, determine consistency of investment style, verify return attribution and liquidity, and dissect the investment process. If the manager meets all the established criteria to this point in the process, our asset class specialists document the investment thesis for the manager.
4. The specialist will bring the manager to NEPC's centralized Due Diligence Committee for vetting. The Due Diligence Committee is made up of senior members of the firm, including Partners and Senior Consultants. Any outstanding issues/questions from the vetting session are pursued by the research analyst and readdressed to the Committee. All successfully vetted investment managers are considered research-qualified and added to a Focused Placement List (FPL) at the research analyst's discretion.

NEPC will then prepare our investment manager search book and assist with the interview process. Our criteria for including investment managers in a search include return expectations and risk tolerance, liquidity needs, legal and or regulatory constraints, and fit within the fund's investment program.

The criteria we use to evaluate managers are based on what we refer to as the Five P's. They are:

- **People:** We want to be very comfortable not only with the key individuals responsible for an investment product, but also the organization that holds them together. Our belief is that organizations that lend themselves to stability and high levels of career satisfaction have a higher likelihood of outperformance. Ownership, incentives and overall professional stability, among others, are examined in considerable detail.
- **Philosophy:** We believe it is important to understand the basic thesis that drives a manager's investment process. For example, we want to know if the manager fundamentally believes in growth, value, bottom-up or top-down investing, and whether or not that philosophy is consistent with their actual implementation.
- **Process:** This is the most in-depth part of our research. We conduct considerable qualitative and quantitative analysis on the process(es) of each investment product of each firm we recommend to our clients. We are thoroughly familiar with the research, buy decision, portfolio construction and sell decision, and we compare each manager on a consistent basis.
- **Performance:** The performance phase of our analysis takes place after the firm's people, philosophy and process pass muster. Strong performance is irrelevant without a stable organization, an investment philosophy that makes sense, and a well-documented, repeatable investment process. When analyzing performance, we look at up-market and down-market performance, as well as correlations between each candidate manager's performance and the risk and return characteristics of the managers remaining in the client's investment program. This final step ensures that all serious candidates will "fit" well with the residual program.
- **Price:** As a final part of our due diligence, we carefully analyze managers' fee structures. We track all components of the fees our clients can be expected to pay, including management fees, entry/exit fees, performance fees, minimum fees, custody fees, and any other fees that may apply. We also determine whether or not most favored nations fees are offered, and the degree to which managers are willing to negotiate. As with performance, our due diligence is designed to ensure that all candidate managers are evaluated on a consistent basis.

The culmination of our evaluation process resides in the investment thesis that we develop for every manager profiled. We believe that, similar to stocks or bonds evaluated by active investment managers, we should have levels of conviction about managers and their ability to outperform. The evaluation process outlined above coupled with the interviews and due diligence we conduct with/on investment managers allows us to form opinions about the managers with whom our clients work, opinions that we believe are important to share with our clients.

2. Describe your firm's methodology and source of data for analyzing and evaluating a potential manager's performance. Describe how risk is factored into this analysis. Discuss any attribution that is performed.

NEPC has developed a variety of techniques for evaluating the future performance of the managers we consider. One technique that we believe helps identify managers that have the potential to outperform going forward is looking at rolling twelve quarter returns of managers and subtracting out the performance of the underlying benchmark. This shows us the stability over time of a manager's performance relative to the benchmark. It is our experience that those managers with stable out-performance have a higher likelihood of outperforming in the future. We also carefully examine the asset capacity of managers, believing firmly that if a manager takes in too much in new assets, the manager will be less likely to outperform going forward. Finally, we need to have confidence that a manager's organization lends itself to continued out-performance. Firms with excessive professional turnover, ineffective management structures or poor incentive structures tend to be poor future performers, and our due diligence process is geared towards identifying potential problems and avoiding those managers who do not meet our standards in these areas. The benchmark used in the manager search analysis process is determined by asset class and client's portfolio structure. Our search books present 1 and 3 years rolling performance analysis and risk/return performance analysis is also included for 3, 5, 7 and 10 years.

3. What qualitative factors do you evaluate when researching investment management organizations? How does your firm identify qualitative problems at investment organizations? How is historical performance used in your evaluation?

Our manager search process involves both quantitative and qualitative analysis. Quantitative analysis involves an examination of manager style, portfolio characteristics, size, return, and risk levels; analysis of each investment manager's portfolio holdings (using Morningstar attribution analysis or eVestment/StyleResearch Holdings Analysis) identifies the adherence to style and can locate deviations from style.

Qualitative analysis includes an evaluation of personnel, client stability, and consistency of investment thesis. Moreover, a personal assessment of each firm's organization, staff, investment process, philosophy, research and modeling capabilities comes from in-depth meetings with the investment professionals at the investment firm.

NEPC places considerable emphasis on understanding how a manager's performance interacts with the other managers already retained by our clients – Alpha Risk Budgeting. One of the cornerstones of our Asset Allocation Reports is a series of correlation analyses that measure which of the managers being analyzed has the best "fit" with the client's existing portfolio of managers. We are able to show "what if" analyses that depict what a client's risk-adjusted return stream will look like based on selection and retention of different managers over time.

NEPC also looks to evaluate how managers perform in different market environments. We analyze managers' performance in up and down quarters, trying to understand how managers fare when the wind is at their backs, as well as when the market is going against them. This helps enormously in matching the most appropriate manager to a client's specific risk tolerance, as well as pairing managers that will complement each other together.

We also analyze a manager's performance history to gauge the likelihood of reversion to the mean. It is an unfortunate tendency for investors of all stripes to be most attracted to the manager with the strongest recent performance. Unfortunately, if a manager has recently performed better than his or her long-term average would suggest, there is a relatively high likelihood that the manager's return will "revert" at some point in the future, and will therefore cause the client to buy high and sell low.

If we are analyzing a composite of separate accounts, we place considerable emphasis on analyzing the dispersion around the manager's average return. At the end of the day, we want to be assured that a manager's reported performance history is a fair and honest representation. To that end, we compare managers' reported performance with actual performance we observe for clients tracked in the ICC Performance Universe Database. This is a powerful tool, allowing us to validate (and more than occasionally refute) data managers have reported. Additionally, managers now present their data by the GIPS performance standards. We also perform much of the "industry standard" analyses on yearly returns and risk-adjusted returns.

Our Due Diligence Committee consists of research professionals, senior members of the consulting practice, and partners in both research and consulting. The Committee meets every other week to review the events of the preceding two weeks as they relate to the investment management community. The Committee vets each Focus Placement List of managers to ensure high standards and consistency in client searches. The Due Diligence Committee's firm-wide policy includes examining investment managers to confirm that they are in compliance with all regulatory bodies, including the SEC.

A "watch" list is maintained by the Committee to advise all of NEPC's staff about problems/issues that managers in our database are facing. Issues that can place a manager on a watch list include staff changes, ownership changes, deviations from the investment process, and changes to the investment process. The Committee reviews all manager search candidate lists for all searches undertaken by the firm. The Committee also monitors all of the managers currently used by our clients regardless of the number of clients using them.

When NEPC becomes aware of a potential problem at an investment management firm (e.g., key personnel change), we notify all of our clients who are invested with that manager through our "48 hour" letter. We will visit the firm, conduct a meeting with the manager at our offices or via conference call to determine how the potential problem is being addressed. We will also report the results of our investigations to our clients and discuss the client's options. Information that is important, but not identified as a potential problem by our research staff requiring a "48 hour" letter, is communicated to the client by the consulting team (e.g., loss of non-critical personnel, anticipated fund closure, new product offerings, etc.).

Furthermore, each of our research analysts is a specialist for a specific asset class, in terms of the research and due diligence on investment managers. Our analysts are responsible for assessing new products and technology in their asset class as well as meeting with the investment managers to review and analyze the organization and investment management capabilities.

Performance Review, Analysis, and Reporting

1. **Describe your firm's performance analysis philosophy and discuss the portfolio analytics your firm is capable of providing, including factors you consider to be critical in reporting performance and give reasons why this approach is superior to others.**

   Our investment consulting philosophy is centered on the concept that the primary driver of returns is asset allocation and plan structure. As such, we are strong believers of broad, global diversification. We are very proactive in encouraging our clients to diversify across markets, across asset classes and within asset classes.

   Using systems supported by State Street Bank, a premier global custodian, NEPC's report delivery is faster and more accurate than any other third party vendor, offers global investment functionality, and includes extensive analytics developed by market leaders such as Morningstar. The ICC (described below) allows NEPC to focus on our consulting services, and not the day-to-day maintenance of a comprehensive database, we therefore are able to provide unparalleled investment consulting and monitoring services.

   The benefit to our clients is that we can integrate custom and timely requests; enhance product quality without sacrificing depth of resources; provide quality consulting via retention of qualified and experienced consultants, and provide intensive client servicing.

   NEPC can evaluate investment managers over any requested time period. We can also provide monthly flash reports, which are flexible in reporting on different time periods, such as fiscal year-to-date. The capital markets are very complex in nature, and different segments of the market will perform differently at different times. NEPC believes this type of intra-cycle rotation must be accounted for in fund structure and in any manager monitoring process.

   Our thorough Investment Performance Analysis (IPA) service is arguably the most comprehensive product of its kind. NEPC's performance reports focus on helping clients make informed decisions on their investment programs. Our reports provide recommendations on asset allocation and rebalancing, total fund results versus benchmarks and investment manager attribution. Our focus is to emphasize how the fund should be constructed going forward based on market conditions and the fund's objectives. For example, do we need to rebalance the fund or does the fund have the right mix of investment managers to achieve goals and objectives?

   Our IPA reports contain performance measurements, risk analyses, and comparisons for the total fund, each asset class, and each individual manager versus goals and objectives. They show the returns earned by a program and its component managers; clearly isolating the sources of over- and under-performance and the risk levels inherent in each manager's process. We compare current portfolio structure to policy guidelines, and results with objectives. The reports are diagnostic and are custom-tailored to your requirements and fund structure.

   Major portfolio holdings, portfolio characteristics, and best and worst performing stocks are identified. Most importantly, these statistics are compiled for the entire market, and their impact on returns is identified. This process identifies which aspects of the investment manager's portfolio the market rewards and which it penalizes. This detailed performance attribution provides a better basis for evaluating and understanding each manager's impact on a client's investment program.

NEPC employs a number of techniques to analyze and evaluate investment manager and portfolio performance. First, we compare all returns against standard industry benchmarks. Benchmarks are chosen to most closely match each investment manager's mandate and strategy. Nearly 500 standard market benchmarks are available and may be incorporated into our reports. Second, we have the ability to create any benchmark (index or normal) of our client's choice, and incorporate those customized benchmarks into our performance analysis reports. We typically create custom benchmarks for our clients to isolate policy and structural decisions from manager contribution.

For example, at the overall Fund level we create and track an "Allocation Index" and a "Policy Index". The Allocation Index is calculated from the Fund's actual structure combined with appropriate index returns. The Policy Index is calculated from the Fund's policy structure combined with appropriate index returns.

Accordingly, the Policy Index represents the returns the Fund would have earned had the commitment to each asset class matched the target commitment, and had each allocation earned the benchmark rate of return. We rank the Policy Index to evaluate the "correctness" of the Fund's asset allocation policy. The Allocation Index reflects returns at actual structure and benchmark returns. Comparing it to the Policy Index tells us the benefit (or detriment) to the Fund due to structural weighting differences away from policy. Finally, the Fund's Composite return is the all-in return for the Fund. Comparing it to the Allocation Index tells us the contribution from active management (security selection).

Performance relative to peers is identified through our universe comparisons. Because our primary ICC universe is so large, we can "slice" it into subsets that allow for focused diagnostics and comparisons. For example, we can provide public fund universe comparisons of similarly sized funds. Additionally, we can isolate equity specialist portfolios within each market segment, and further isolate equity style groupings (value, core and growth arranged against small, medium and large capitalization portfolio breakdowns) and fixed income style groupings (core, intermediate, short, high yield and long). We also can monitor managers' performance relative to their composite results and results achieved for other accounts.

The vast size of our universe, coupled with the fact that security level detail is retained for the great majority of actively managed portfolios, permits valuable peer group comparisons. Examples include:

- Performance comparisons incorporating Morningstar risk factors and more conventional portfolio diagnostics, including capitalization, book/price, earnings/price, leverage, ROE, dividend yield, Beta, standard deviation and five-year growth, among others.
- Morningstar-based style analyses. These comparisons are developed from actual security holdings rather than portfolio return patterns. As a result they are

considerably more accurate than other approaches, and considerably more sensitive to and descriptive of style drift.

- Comparisons to portfolios and funds having comparable equity commitments, duration, quality, coupon, maturity, P/E ratio, and Beta characteristics, among others.

We believe accuracy is one of the most critical factors in reporting performance. NEPC uses individual transactions and assets for entry into the performance measurement system. We believe this allows for the most precise and accurate performance measurement reporting. The comparison universes and benchmarks should be relevant, comprehensive and unbiased. We believe several factors of our performance evaluation services set us apart from our competitors.

- All of our data is taken directly from bank custodial statements (rather than the managers), ensuring complete objectivity and independence from the managers.
- We have the largest overall performance measurement database and the largest public fund database in the industry. Our primary universe contains data from 19,555 actual plan sponsor portfolios containing roughly $1.9 trillion in assets, it does not rely on manager-supplied data, commingled funds, government filing or mutual fund proxies. In our experience, those proxies are often misleading benchmarks that tend to overstate relative investment performance results.
- Our performance measurement universe is one of the most diagnostically oriented in the industry, providing us and our clients with both the actual risk and return information for their investment programs, but more importantly, the whys for those performance records. Accordingly, we have a much better understanding of when to retain a temporarily poor-performing manager, or when to terminate a relationship. These insights have contributed materially to the excellent performance of our typical client. To appreciate the diagnostic capability of the report system, consider the fact that the individuals who wrote most of the diagnostic software for Callan, Wilshire, Merrill and AG Becker/SEI currently belong to the member firms that make up the Independent Consultants Cooperative.
- MyStateStreet, our on-line workstation is simply without peer in the industry. As an example, this tool provides the advantage of being able to access information on how (and why) managers are faring in other comparable relationships throughout the country. One way we use this access is in evaluating actual performance results for candidate manages rather than relying solely on their RFP responses.
- Our databases are developed from input provided by State Street Bank, NEPC and 12 other independent investment consulting firms, ensuring that they are both robust and representative of the risk measures and return levels being earned by your peers throughout the country. Our competitors by contrast, access much smaller databases and in one case, only the clients of the individual consulting firm. Our experience is that the performance benchmarks generated by these firms are fairly easy to beat, giving their clients the false impressions that they are performing better than actually is the case.

2. Does your firm meet the requirement that all performance reporting complies with CFA Institute Performance Reporting Standards?

We calculate performance using the time weighted return methodology (TWR) for traditional strategies and money weighted return methodology (MWR) (also known as IRR) for alternatives strategies such as PE and RE (most private funds). Both of these methodologies are the industry standard, specifically under GIPS of the CFA Institute. We use the modified dietz formula to calculate the TWR, which is an acceptable method under GIPS.

We do apply all commonly used consultant standards, including recommendations from the BAI (Bank Administration Institute). We do encourage investment managers in our manager search database to follow the GIPS standards, in order to be considered in searches for our clients.

The Global Investment Performance Standards (the GIPS® standards) provide consistent, globally accepted standards for investment management firms in calculating and presenting their results to potential clients. According to the CFA Institute, only investment firms may claim compliance with the GIPS standards. Consultants may not claim to be GIPS-compliant.

[From "Global Investment Performance Standards," Philip Lawton and W. Bruce Remington, published by the CFA Institute, 2005]

3. Do you reconcile your calculated performance with investment managers' and custodians' reports? If yes, please describe.

NEPC calculates manager returns monthly for the total fund, each asset class, each manager, and any sub grouping desired by the client using a modified Dietz formula return calculation. The monthly returns are linked together to calculate long term, time-weighted rates of return. NEPC uses custodian bank accounting statements for pricing and transactions, and return calculations are based on trade date and full accrual accounting. Both gross (before fee) and net (after fee) returns are calculated based on actual withdrawals reported on the bank statement. Other cash flows such as contributions, withdrawals, and benefit payments are treated as such and do not affect the return calculations. These results, along with security holdings, are then uploaded by NEPC to State Street, where the ICC universe is generated. State Street hosts the ICC universe but all of our clients' custody bank material flows directly to NEPC. All client names are confidential and only the underlying data is used in the universe creation.

As the host of the ICC universe, State Street generates complete diagnostics for each portfolio based on the security holdings provided by NEPC. These diagnostics include all Morningstar risk factors, style analysis, sector and industry performance attribution, trading impact, benchmark comparisons, and so on. The benefit of computing "holdings-based" diagnostics is that we are aware of the current exposures in our client relationships, rather than historic exposures calculated by our competitors using "returns-based" diagnostics. Our methodology is somewhat more expensive, but considerably timelier in identifying the risk characteristics of each portfolio. NEPC uses the universe data aggregated by State Street and creates customized Investment Performance Analysis reports for each of our clients.

In order to provide portfolio verification, performance numbers and/or market values are compared to manager, custodian and client returns. We reconcile the returns and then follow up on any discrepancies with the custodian, manager or client. We also monitor custodians for consistency with industry standards in terms of services offered, timeliness and cost.

4. What amount of input may the client have in the content and format of an investment performance evaluation report? Do you have the ability to customize reports for your clients?

We pride ourselves on our ability to customize our products and services to each client's needs. We can customize the Fund's Performance Analysis report at your request, at no additional charge. We can also provide monthly flash reports, which are flexible in reporting on different time periods, such as fiscal year-to-date. Moreover, because we emphasize research and client education, customized reports produced by our firm are considered a part of our obligation as consultants, and are provided at no incremental charge to our clients. Requests for changes in reporting can be made at any time.

5. Who will be responsible for working with the Fund to design the standard performance evaluation report and for compiling the report each quarter?

We offer all of our full-service retainer clients an open-ended service commitment to meet their investment requirements. Typically, we function as an extension of their investment staff. We will work closely with the Fund's staff, Trustees, actuary, custodian and investment managers to gather the information required to deliver all aspects of our consulting services.

NEPC currently employs 40 in-house computer/data processing staff members, led by Isabella Kalia, Performance Analyst Manager; Jodie Cronin, Private Markets Reporting Liaison; and Brian Moreira, Client Reporting Technical Liaison. They are primarily responsible for all client performance measurement data that is uploaded to State Street Bank for final processing and performance universe creation.

6. What asset classes are tracked in your performance measuring system? How many managers are included within each asset category?

The ICC Universe is the largest overall universe in the industry, containing over 19,555 separate portfolios and total assets of $1.9 trillion. The ICC performance measurement system can track all asset classes. As of December 31, 2010, the ICC Universe had the following number of observations* in each style group consisting of 1,186 different managers:

Domestic Equity (Active) – 4,091
Domestic Equity (Passive) – 973

International Developed Markets Equity – 1,896

International Emerging Markets Equity – 485
Global Equity – 322

Balanced Funds – 392
TAA - 598

Domestic Fixed Income (Active) – 3,881
Domestic Fixed Income (Passive) – 441

International Fixed (Developed) – 43
International Fixed (Emerging) – 53
Global Bonds – 307

Stable Value Funds – 78
Cash Funds – 1,130
Venture Capital – 238
Private Equity – 1,450
Mortgages – 25
Real Estate – 943
REIT - 154
Hedge Funds – 2,047
Tax-Exempt Bonds - 25

*The ICC database includes coding to distinguish separately managed accounts from funds but the data on portfolio counts includes both types.

7. Describe the database/universe used by your firm for performance reporting. Is it an in-house product, or do you purchase the information? Describe any public fund components of this database as related to number and size of entities and amount of assets involved.

NEPC's performance reports focus on helping clients make informed decisions on their investment programs. Our reports provide recommendations on asset allocation and rebalancing, total fund results versus benchmarks and investment manager attribution. Our focus is to emphasize how the fund should be constructed going forward based on market conditions and the fund's objectives. For example, do we need to rebalance the fund or does the fund have the right mix of investment managers to achieve goals and objectives?

NEPC is proud to have developed systems that are at the forefront of the performance measurement industry. Additionally, our Chairman, Mr. Charlton, served as the co-chair of the Consultants Performance Presentation Standards Task Force, a two-year effort that developed industry-wide reporting standards for manager reporting to consultants and consulting reporting to plan sponsors. NEPC is the lead member firm in a national coalition, the Independent Consultants Cooperative (ICC), comprised of 13 independent investment-consulting firms and the performance measurement clients of State Street Bank. Through the ICC, client data from the member firms is anonymously pooled to form the ICC Universe, the largest and most robust performance measurement database and attribution system in the industry. The Federal Reserve and the Employee Benefits

Research Institute (EBRI) utilize the ICC Universe as the basis for their definitive studies of the US Pension System.

As the lead firm of the Independent Consultants Cooperative (ICC), NEPC has access to the largest performance measurement/diagnostic universe in the industry (19,555 portfolios containing $1.9 trillion dollars in assets by 1,186 different managers). The universe provides performance and diagnostic evaluations of domestic and international public market managers, and is perhaps the largest Public Fund performance measurement database comprised of actual data, currently encompassing 4,640 portfolios. State Street Bank, on behalf of the constituents of the ICC, currently spends over $3 million per year on performance measurement hardware and software.

8. Describe the performance attribution analysis you use and provide a sample report.

Performance attribution analysis for domestic investment managers is evaluated in several ways. The portions of return attributable to strategic policy decisions, to the industry weight decisions, and to the security selection decisions are clearly identified. At the total fund level the effect on performance of deviating from the long-term policy mix decision is measured by comparing the returns of the policy portfolio to the returns actually achieved on the total portfolio.

In equity portfolios, we can isolate and quantify the portion of the return attributable to industry over or under weighting. The security selection effect is measured via a buy vs. hold analysis to determine whether the manager made security selections better (or worse) than if he had not traded at all. Lastly, trading impact is also isolated in this analysis.

We offer unique services to analyze international portfolios. The manager's 'value added' from country weighting, stock selection, and currency decisions is identified through our attribution analysis.

Because fixed income portfolio managers use a number of different strategies, comparisons with similarly managed portfolios and benchmarks are made, as well as comparisons based on maturity, duration, yield, quality and style.

Calculating portfolio duration can be a complex process, and the treatment of cash alone can impact the overall measurement. We access bond security information though the State Street database that works with multiple vendors including CMS, a leading vendor of bond analytics. We can offer fixed income attribution exhibit as part of our fixed income reporting package.

Finally, real estate returns are disaggregated into their income and principal components and the impact of leverage can be displayed, if required.

Enclosed is a copy of our quarterly Investment Performance Analysis (Exhibit 1) for your review. These customized reports are specialized in varying levels of detail for the staff and the Board, as appropriate. All performance reports are customized to meet your needs. We strive to deliver performance reports that provide information to assist the

Board in making investment decisions versus just providing data. Our focus, however, at meetings emphasizes future decisions to help the fund meet the overall goals and objectives. These can include strategic and tactical decisions such as asset allocation and rebalancing, investment policy statement review, education and manager selection.

9. Describe your capabilities in the production/interpretation of securities lending.

NEPC has long been a proponent of securities lending, and the great majority of our clients are participating in carefully documented and researched securities lending programs. We review existing securities lending agreements to ensure adequate safeguards and appropriate standards are in place, including counterparty approval processes, borrower indemnification clauses and revenue sharing clauses. Where separately managed pools are utilized NEPC will review existing collateral reinvestment guidelines and recommend changes, as appropriate. For clients which utilize commingled pools, NEPC has conducted significant research and due diligence on the pools offered by the largest providers in the industry. Importantly, the collateral investment funds used by our clients are thoroughly documented and their investment guidelines are incorporated into each client's investment policy statements.

NEPC has conducted a significant amount of research on behalf of our clients around securities lending. We have worked with all of the major custodians and securities lending agents to determine their program's status given the recent market dislocations. We have developed strategies to exit those securities lending programs that we feel are not fulfilling their promise of low risk for a moderate increase in return, or for those programs that have not stood behind their securities lending programs' collateral pools with asset infusions when it is clear that the program took on too much risk. We feel it is critical for our clients to understand the risks within all securities lending programs, and have been proactive with clients to recommend short-term and long-term courses of action. We are also published on the topic of governance, and feel quite well qualified to assist you in this area.

Subcontracting

1. If your firm uses the services of a subcontractor, please identify the subcontractor and describe the skills and qualifications of the subcontractor and its individual employees.

NEPC does not subcontract any of the services provided to our clients.

2. Describe the contractual arrangement contemplated with each subcontractor and describe generally the control/delegation of responsibilities anticipated in that arrangement.

Not applicable.

Insurance and Liability

1. **Please describe the levels of coverage for errors and omissions insurance and any fiduciary or professional liability insurance your firm carries. Is the coverage on a per client basis, or is the dollar figure applied to the firm as a whole? List the insurance carriers and provide evidence of professional liability insurance.**

   NEPC carries Errors and Omissions coverage for the overall firm. This policy has been endorsed to include language that provides coverage for fiduciary responsibility as defined by ERISA. This is not a separate policy; the limit is $10,000,000 with a deductible amount of $250,000. The primary carrier is Indian Harbor Insurance Company and the second insurance carrier is Axis. We have provided a copy of our evidence of insurance in Tab 4.

   Additionally, we have:

   - Commercial Umbrella - $10 million in additional coverage (CNA)
   - Business Owner's Policy, which contains General Liability - $1 million each occurrence, $2 million aggregate, $2 million products/completed operational aggregate, $1 million personal & advertising injury liability limit (CNA).
   - A Director and Officer Policy - $5 million aggregate, $1 million fiduciary, $25K deductible (Greenwich Insurance Company)
   - Worker's Compensation - $1 million/accident, $1 million/disease, $1 million/policy limit (CNA)
   - Employment Practice Insurance - $1 million per claim, $1 million aggregate with a $10,000 deductible (Mount Vernon Fire)
   - ERISA bond (crime bond) for each discretionary client as required under ERISA section 412

Fee Schedule

1. **Provide, in detail, the fees your firm would charge for investment consulting services. Fees must be proposed as "all in". The Fund has extensive investments across all three major areas of alternatives. Please propose a tiered fee schedule as follows:**

   - **Traditional Asset Consulting (excluding alternative assets):**
     - i. **Under this structure, how much would your firm charge for a "one off" alternative asset manager search? How much for a "one off" prudent letter report on an assigned alternatives manager?**
   - **Traditional plus direct hedge funds,**
   - **Traditional plus real estates,**
   - **Traditional plus private equity,**
   - **Traditional and all alternative assets.**

SAFP currently retains Townsend for real estate and Albourne for hedge funds. It is not contemplated that we will change but we want to understand if your organizations has the capabilities and how much it would cost.

Virtually all of our 300 clients employ our services on a full retainer basis. Our full retainer service commitment for traditional financial assets is open-ended, and includes:

- the development and/or refinement of each client's investment policies, objectives and guidelines and their periodic review, thereafter;
- liability-based asset allocation studies every three to five years, the length of a typical planning cycle;
- asset-based asset allocation studies, as requested;
- manager and custodian searches, as required;
- quarterly investment performance analysis reports and accompanying executive summaries;
- monthly flash reports;
- advice on proxy voting services;
- educational seminars;
- our annual client conference (not funded or subsidized in any way by investment managers);
- attendance at your meetings;
- and special projects and reports, as requested.

- **Traditional Asset Consulting (excluding alternative assets):**

  i. Under this structure, how much would your firm charge for a "one off" alternative asset manager search? How much for a "one off" prudent letter report on an assigned alternatives manager?

  Our fee proposal for these services is $320,000, inflation adjusted on an annual basis.

  - Includes travel, postage and related expenses.
  - "one off" alternative asset manager searches:$40,000 per search
  - "prudent letters":$5,000

- **Traditional plus direct hedge funds,**

  Traditional + Direct HF Program: $320,000 + $400,000 = $720,000

- **Traditional plus real estates,**

  Traditional + RE Program: $320,000 + $400,000 = $720,000

- **Traditional plus private equity,**

  Traditional + PE Program: $320,000 + $400,000 = $720,000

- **Traditional and all alternative assets.**

  Traditional + All Alternative Programs: $320,000 + $980,000 = $1,300,000

2. Identify the period of time the proposed fees will remain in effect.

NEPC will guarantee its fee for 5 years.

3. Does your firm's proposed fee arrangement consist of any incentive or contingent payments? If so, please describe the manner of calculation in detail.

No.

Appendices

1. Appendix A – Form ADV Parts I and II: Please attach a copy of the current Form ADV Parts I and II or your firm and all other registered investment advisors (whether SEC or state registered) that are affiliated or related to your firm.

We have provided a copy of our ADV Parts I & II in Tab 5.

2. If you are hired, will you acknowledge in writing that you have a fiduciary obligation as an investment advisor to the plan while providing the consulting services we are seeking?

Yes.

Appendix B – Client Terminations

NEPC has lost an average of seven institutional clients with assets in excess of $100 million over the last three years. Importantly, 29% of the losses were for reasons beyond our control, such as mergers, acquisitions, outsourcing, no longer using a consultant and bankruptcies (6). NEPC resigned from one client relationship and the 14 remaining relationships rebid their contracts. Less than 2% of NEPC's clients have rebid their contracts annually over the last 10 years.

Client*	Total Assets ($millions)	Reason for Loss
Applied Biosystems	965	Acquired by Life Technologies
Bingham McCutchen, LLP	509	Outsourced plan
Blue Cross and Blue Shield Association	4,300	Rebid contract
Citizens Financial Group	1,388	Rebid contract
College of the Holy Cross	507	Rebid contract
Confidential Corporation	1,300	Rebid contract
Deerfield Academy	335	Rebid contract
Eastern Band of Cherokee Indians	650	NEPC resigned its services
Liberty Mutual	4,028	Rebid contract
MA Bay Transportation Authority	1,200	Rebid contract
New Balance Foundation	101	Top performing Foundation outsourced plan to broker
New Mexico State Investment Council	1,3533	Non-renewal of contract
Ohio University Foundation	283	Rebid contract
O'Neal Steel	218	Rebid contract
Remington Arms Company	217	Rebid contract
Sun Microsystems, Inc.	3,361	Acquired by Oracle, Inc.
Texas Prepaid Higher Education Tuition Board	2,100	Rebid contract
Town of Fairfield, CT	350	Rebid contract
University of Massachusetts	611	Transferred oversight to Endowment Investment Committee
US Bancorp	5,300	Rebid contract
WMATA Retirement Plan	265	Moved to passive management of plan

* Lost clients above represent all institutional clients with assets in excess of $100 million.

Appendix C – Consultant Turnover

Over the past three years we have lost 15 consultants, none of whom have voluntarily left and joined the competition or remained in investment consulting.

Consultant	Title	Retired
Doris Ewing, CFA, CAIA	Partner	Retired after 30 years in the investment industry, 15 of which she spent with NEPC
Ellen Griggs	Partner	Retired after 34 years in the investment industry, 10 of which she spent with NEPC

Consultant	Title	Personal Considerations
William Monagle	Partner	Left to pursue personal and professional interests
Michelle Simpson	Senior Consultant	Left to spend full time with her family
Laurie Tillinghast	Senior Consultant	Relocated with family
Christopher Tobe, CFA, CAIA	Senior Consultant	Relocated with family

Consultant	Title	Reason for Departure
Greg Bauer, CFA	Senior Consultant	Left investment consulting
Jaeson Dubrovay, CPA, CAIA	Senior Investment Strategist, Hedge Funds	Left Investment Consulting
Jennifer Heilig	Consultant	Left investment consulting
Timothy McDonough	Consultant	Left investment consulting
John McManmon, III	Senior Consultant	Left investment consulting
Joseph O'Byrne	Senior Consultant, Private Markets	Left investment consulting
Edward O'Donnell	Senior Consultant	Left investment consulting
Bryan Schneider, CFA	Senior Consultant, Hedge Funds	Left investment consulting
Dion Stevens	Consultant	Left investment consulting

Additions to NEPC's consulting staff over the last three years:

Consultant	Title	Prior Affiliation
Ashwini Apte, CAIA	Consultant	Promoted from within the firm.
Frank Barbarino, CAIA	Senior Consultant, Hedge Funds	Fix Asset Management
Timothy Bruce	Consultant, Hedge Funds	Promoted from within the firm.
John Casano, CAIA	Senior Consultant	Cambridge Associates
Kristen Colvin, CAIA	Consultant	Promoted from within the firm.
KC Connors, CFA, CAIA	Partner Consultant, Private Markets	Jeffrey Slocum
Jodie Cronin	Reporting Liaison	State Street Corporation
Kelly Cummings	Consultant	Promoted from within the firm.

Lynda Dennen, ASA, EA	Research Consultant	Promoted from within the firm.
Scott Driscoll	Consultant	Promoted from within the firm.
Kristin Finney-Cooke	Senior Consultant	Mercer Investment Consulting
Sebastian Grzejka	Consultant	Promoted from within the firm.
Eric Harnish	Senior Research Consultant, Private Markets	State Street Corporation
Alex Kamunya, CAIA	Consultant, Hedge Funds	Promoted from within the firm.
Daniel Kelly	Chief Operating Officer	UBP
Paul Kerry, ASA, EA	Senior Consultant	Fidelity Investments
John Krimmel, CPA, CFA	Senior Consultant	Callan Associates
Dan LeBeau	Consultant	Promoted from within the firm.
Jeff Markarian	Research Consultant	Promoted from within the firm.
Phillip Nelson, CFA	Research Consultant	Pinnacle West Capital Corporation
DulariPancholi, CFA, CAIA	Consultant, Hedge Funds	Promoted from within the firm.
Joel Paula, CAIA	Research Consultant	Promoted from within the firm.
Jeff Pickett, CFA, CAIA	Consultant	CTC Consulting
	Consultant, Private Markets	
Jeffrey Roberts	Reporting Liaison	Promoted from within the firm.
Sean Ruhmann	Senior Consultant	Goldman Sachs
Neil Sheth	Senior Research Consultant, Hedge Funds	Berkshire Partners LLC
Don Stracke, CFA	Senior Consultant	Shenkman Capital Management
Keith Stronkowsky	Consultant	Promoted from within the firm.
Michael Sullivan	Consultant	Promoted from within the firm.
Kamal Suppal, CFA	Consultant, Hedge Funds	US Trust Private Wealth Management
Charles Tedeschi	Consultant, Private Markets	NewSpring Capital
Michael Valchine, CAIA	Consultant	Promoted from within the firm.
Eric Vallo	Consultant	Promoted from within the firm.
Claire Woolston	Consultant, Alternative Assets	Williams College Investment Office

Information Disclosures

- This document may contain confidential or proprietary information and is intended only for the designated recipient(s). If you are not a designated recipient, you may not copy or distribute this document.
- ICC Universe
  - As of December 2010 the ICC Universe contained actual, custodian-supplied and audited data on 19,555 portfolios managed by 1,186 different managers on behalf of 950 plan sponsors, representing roughly $1.9 trillion in assets. This data is drawn from 13 independent investment consulting firms, including NEPC, and many of the performance measurement clients of State Street Bank.
  - ICC information can be found at www.icc-group.com
- NEPC Client Performance
  - All returns are gross of fees except hedge funds and private equity; therefore NEPC's performance may be understated because our clients tend to have higher positions in each of these asset classes than the universe.
  - Clients Included: NEPC's Composite is drawn from all Pension Plans, Endowments, and Foundations where NEPC is the sole full-retainer consultant. Plans are included in the Composite provided they have exposure to equity and bonds (including alternatives) of at least 30% each, and no more than 20% to other assets such as cash and GIC's.
  - Start Date: New clients are added to the Composite with the first full quarter of a new manager selected from an NEPC search, or after one year as an NEPC client, whichever comes first, provided that the plan is globally diversified.
  - NEPC acts in an advisory capacity only for many clients and does not have discretion over client assets. As a result, a client's investment performance may not be attributable solely to NEPC's advice.
- Past performance is no guarantee of future results.
- Information on market indices was provided by sources external to NEPC, and other data used to prepare this report was obtained directly from the investment manager(s). While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

Alternative Investment Disclosures

It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds, real estate and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy