Division of Finance and Business Operations

Response to Request for Proposal

and Specifications for

Retirement Plan Investment Consultant Selection 2014

By

Advanced Capital Group, Inc.

Wayne State University
Procurement & Strategic Sourcing

May 09, 2014

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Appendix

Minimum Credentials

To be considered for the investment advisor position described above, the firm must meet the minimum requirements described.

1) The investment advisory firm must be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940.

   Yes.

2) The firm must contractually agree that its relationship with WSU and with each of the Retirement Plans is that of a "fiduciary." In its role as such a fiduciary, the firm must contractually agree to (a) perform the fiduciary duties that are imposed on any fiduciary by the laws of the State of Michigan, and (b) perform the fiduciary duties that are imposed on any fiduciary that is subject to the fiduciary liability provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended from time to time, without regard for whether or to what extent ERISA applies to WSU or to any of the Retirement Plans.

   Yes.

3) As of December 31, 2013, the investment advisory firm must have provided (for at least five (5) consecutive years) investment advisory services comparable to those described in the Scope of Services section of this RFP to at least three (3) separate defined contribution public retirement plans, each of which must have had at least $2 billion in assets throughout the five (5) year period.

   Addendum #1 To: RFP Retirement Plan Investment Consultant Selection 2014 dated April 4, 2014 (Dated 4-16-2014):

   Question
   Must the respondents meet Section III, #3 under "minimum criteria" regarding having three (3) current clients with plan assets exceeding $2 billion for five (5) consecutive years? If this requirement is not met, will the proposal be automatically disqualified?

   Answer
   No

4) The investment advisory firm must agree to disclose all potential conflicts of interest as such exist or occur, and annually disclose all sources of revenue and all affiliations.

   Yes.

5) The investment advisory firm must agree to a fee arrangement for its services, with such arrangement to be negotiated between WSU and the firm.

   Yes.

6) The individual assigned to WSU as Primary Advisor must, as of December 31, 2013, have a minimum of ten (10) total years of experience as (a) the Primary Advisor to, and/or (b) the Chief Investment Officer of, at least one public and/or private defined contribution retirement fund. This individual must have had, as of December 31, 2013, at least five (5) years of experience as the Primary Advisor to The Chief Investment Officer of at least one defined contribution public retirement plan with at least $2 billion in assets, whether that experience was included in or in addition to the ten-year requirement above. The term "Primary Advisor" shall refer to the lead, most senior advisor assigned to regularly provide direct investment advisory services in an advisory relationship.

   Yes.

Project Specifications:

The firm will be required to provide the following scope of services to WSU:

1) Advice regarding the development and implementation of an Investment Committee;

Yes.

2) Advice regarding the development and implementation of investment policies and guidelines relating to investments for the Retirement Plans;

Yes.

3) Advice regarding the selection of a menu of investment options that are offered to participants in the Retirement Plans, including advise on the capabilities of mutual fund managers (for currently offered and potential future offerings), analysis of a firm's personnel, investment philosophies and processes, internal and risk controls, risk-adjusted performance and performance relative to peers;

Yes.

4) Assist the Investment Committee in its monitoring of mutual fund managers, including periodic reviews, interviews and on-site visits to managers as requested by the Investment Committee;

Yes.

5) Perform quarterly performance analysis by fund manager and asset class, including peer universe comparisons at the asset class level, and providing quarterly reports regarding that analysis;

Yes.

6) Provide annual reviews and recommendations regarding the appropriate mix of mutual fund options offered to participants in the Retirement Plans, including annual reports with forecasts of return, risk and correlations for all asset classes offered;

Yes.

7) Advice regarding risk management issues relating to Retirement Plan investment options;

Yes.

8) Utilize analytical software (or an on-line system) to analyze and evaluate investment styles and manager performance (including the capability of determining if a fund manager's performance is within established limits);

Yes.

9) Provide research on special investment topics as requested;

Yes.

10) Perform educational sessions for the WSU Board of Trustees, the VPFBO and the Investment Committee as requested;

Yes.

11) Provide on-site consultation and assistance, as requested; and

Yes.

12) Attend approximately four (4) meetings per year in Detroit, Michigan.

Yes.

Minimum Requirements

The proposal must specifically discuss each minimum requirement that is described in this section.

1) Is the firm, its parent, or affiliate, a registered investment advisor under the Investment Advisors Act of 1940? If yes, please provide the firm's (or parent or affiliate's) SEC File Number (e.g. 801-xxxxx).

   Yes. 801-65944

2) Will the firm contractually agree that its relationship with WSU and with each of the Retirement Plans is that of a "fiduciary"? In its role as such a fiduciary, will the firm contractually agree to (a) perform the fiduciary duties that are imposed on any fiduciary by the laws of the State of Michigan, and (b) perform the fiduciary duties that are imposed on any fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA), as amended from time to time, without regard for whether or to what extent ERISA applies to WSU or to any of the Retirement Plans?

   Yes. ACG provides investment advice for a fee. As such, it is subject to the jurisdiction of the Investment Advisers Act of 1940 ("IAA"). The focus of the IAA is to describe the "fiduciary" duties of one who provides investment advice for a fee. Thus, they are investment related. Likewise, some – but not all – of ERISA's fiduciary duties focus on the providing of investment advice. The point is that there are many fiduciary duties that are not investment-related – both at common law and in ERISA. So, our answer is simply that we acknowledge in writing that we are an investment fiduciary for purposes of both the IAA and ERISA.

3) Provide the names of three (3) defined contribution public retirement plan clients for which the firm has provided (for at least five (5) consecutive years) investment advisory services comparable to those described in the Scope of Services section of this RFP. The market value of the assets held under each retirement plan must have been at least $2 billion throughout the five (5) year period.

   ACG has one defined contribution public retirement client with assets of at least $1.2 Billion: the State of Iowa. If measured in the context of all participant-directed defined contribution plans, ACG manages more than 100 plans with assets in excess of $12 Billion. In addition, Teri Richardson who is one of the two primary advisors who would be assigned to your account, has more than six years of experience serving in the plan sponsor role for a private 401(k) plan with assets in excess of $3 Billion, and for a state 457 plan with assets in excess of $3 Billion. She was responsible for manager selection and due diligence, and evaluated and implemented the addition of investment options in both plans.

   We appreciate that you have a big plan and that it is logical to look for someone who has experience with your size plan. But, we believe that we will demonstrate meaningful innovation that will serve your participants well. In short, it has been our experience that defined contribution plans of ALL shapes and sizes have the exact same (no more and no less) set of issues: 1) enabling and teaching participants to be their own pension managers and 2) setting and achieving the goal of providing a desired retirement income for life with the flexibility to leave at least some portion of the remainder to loved ones. And successfully achieving those dual-challenges are just as crucial to plan sponsors who seek to provide meaningful retirement benefits as their world moves away from defined benefit plans and the promise of lifetime benefits.

4) Will the firm contractually agree to disclose all potential conflicts of interest as such exist or occur, and annually disclose all sources of revenue and all affiliations?

   Yes. Disclosure of actual or potential conflicts is at the very heart of the IAA.

5) Will the firm contractually agree to a fee arrangement for its services, it being understood that such arrangement shall be negotiated between WSU and the firm?

Yes. And, further, let us be clear that we accept no commissions, rebates, or “other” hidden compensation of any kind.

6) Provide the name of the advisor that the firm will designate as the Primary Advisor to WSU if it is awarded this work. (Primary Advisor shall mean the lead, most senior advisor assigned to regularly provide direct investment advisory services to WSU.) Provide a brief biography of the Primary Advisor with information sufficient to determine whether or not the individual meets the minimum requirements stipulated in this section.

We are making the strategic decision to assign “two” Primary Advisors to your plan.

 Primary Advisor Brad Tollander, CFA® Senior Investment Consultant	Primary Advisor Teri Richardson, MBA, CFA® Senior Investment Consultant 
Brad oversaw the national retirement plan consulting practice for Deloitte LLP. When Deloitte divested itself of that business line in 2010, ACG bought it and hired Brad as well. Because of Deloitte’s prominence in the consulting world, most of Brad’s clients were/are quite large – and all but two followed him to ACG. During his time at Deloitte Brad worked with several higher education institutions. Overall experience with higher education employer-sponsored retirement plans: *State of Iowa Retirement Investors Club (RIC) [$1.1 Billion]* Brad has worked – and continues to work - with the plan for ten years and has assisted in the vendor search process and provided investment compliance review services. In addition he has evaluated plan fees and revenue sharing. *University of North Carolina [$2 Billion]* Brad was on the team that ran an RFP process to reduce the universe of multiple vendors down to two – one of which was TIAA-CREF. After that search, Brad was retained to help the client select and monitor core funds. He created quarterly reports and met with its Board semi-annually for four (4) years. During the following bid process respondents were asked to be a co-fiduciary. Deloitte declined and was not rehired. *Kansas Board of Regents [$2 Billion]* Brad was a member of a team that managed an RFP	Teri obtained both her undergraduate (math) and graduate (MBA) degrees from the University of Minnesota and in 1999 was awarded the Chartered Financial Analyst (CFA®) designation. By way of experience, Teri spent twelve (12) years at William M. Mercer, Inc. as a consultant/analyst before moving to Northwest Airlines where she held a number of positions culminating as Director of Cash & Pension Investments overseeing $10 billion in defined benefit and defined contribution assets. After its acquisition by Delta, Teri moved to the Minnesota State Board of Investment where she served as the Assistant Executive Director in which role she oversaw financial and investment management functions for more than $60 billion in State of Minnesota pension, trust and cash accounts. Duties included asset allocation, investment manager selection/oversight, performance reporting, portfolio rebalancing and the supervision of a staff of seventeen (17) accounting and investment professionals. In addition to her substantial work experience, Teri has been active with the CFA Society of Minnesota where she currently serves as the Assistant Treasurer. She has also been active in the Women’s Foundation of Minnesota where she served one term as its Investment Committee Chair. Teri’s initial role at ACG will be to support our retirement plan consulting practice which continues to grow and today provides investment advice to

process to reduce its universe of vendors to two – one of which was TIAA-CREF. After that search, Brad was kept on to help the client select and monitor core funds. For that, he created quarterly reports and met with its Board semi-annually. *<u>Pennsylvania State System of Higher Education [$500 Million]</u>* Brad helped refine the current investment options available to participants. In addition he implemented an investment oversight structure including investment policy statement development and monitoring.	more than 100 employer-sponsored retirement plans with combined assets in excess of $10 Billion. In addition, Teri will work with our non-profit group on providing investment consulting and tactical-cash-management to our endowment/foundation clients.

7) Is the firm currently able to provide to WSU the full scope of services listed? If not, explain which services the firm cannot provide.

Yes.

Organization, Independence and Ethics

1) Provide the name, address, telephone and fax numbers, and e-mail address of the firm's representative who should be contacted regarding all contractual and technical matters concerning the firm's proposal. Provide a full disclosure on any conflicts of interest.

Justin Dorsey, JD. Chief Compliance Officer. T: 612.230.3009; F: 612.230.2019. E: jdorsey@acgbiz.com. Mr. Dorsey has no conflicts of interest of which he is aware.

2) Provide the address of the firm's main corporate office, and the location by city of all other offices that provide services similar to those requested in this RFP. Indicate which office will be primary in servicing WSU, and any other offices that will be involved in the provision of services to WSU. Provide the number of employees located at each office location, and describe the general function(s) of each office.

Advanced Capital Group, Inc., 50 South Sixth Street, Suite 975, Minneapolis, MN 55402. This is our sole office location. We employ 25. Re: general function, we generate all of our own reports out of this office and otherwise serve all of our clients out of this office.

Advanced Capital Group: The Firm

The ACG team averages 18 years experience and includes:

- 6 associates with the CFA designation; 2 level II CFA candidates;
- 7 with an MBA; 1 Master of Math; 1 Master of Economics;
- 2 with the CFP® designation; 2 Juris Doctors;
- 1 Actuarial Fellow; 1 CPA and 1 Qualified Plan Financial Consultant.

3) Does the firm intend to utilize any subcontractors in delivering the scope of services? If yes, provide the name and qualifications of any subcontractor that the firm intends to use for the delivery of services described in this RFP, and their affiliation, if any, with the firm. Provide a full disclosure on any conflict of interest.

The only possible sub-contractor whose services we might engage is a benefits lawyer to provide advice to us/you on possible plan design and/or plan correction issues.

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Jewelie is a Partner at Stinson Leonard Street and advises non-profit organizations (and speaks at numerous trade functions) on the design, implementation, maintenance and compliance of:

- Retirement plans (401(k), 403(b), 457(b)&(f) plans)
- Health plans (including cafeteria plans and HIPAA)
- Executive compensation and supplemental retirement plans

4) Briefly describe the firm's history and current ownership structure. List the owners of the firm from largest to smallest percentage of ownership. Include individuals and corporate owners, and indicate which individual owners are employed by your firm. Is the firm owned, in whole or in part, by a money management firm or firms?

ACG was incorporated in Minnesota in 1998. Originally, it provided investment consulting to employer sponsored retirement plans and high net worth individuals. In 2006, it added fixed-income investment-management as a separate line of business. In 2010, it acquired the Deloitte institutional retirement-plan consulting practice. In 2013, it acquired the women-owned investment consulting practice: Berthel-Schutter. ACG has four partners: Charles Langowski, Justin Dorsey, Patrick Larson and Dan Schroeder. The firm's two founding partners are Charles Langowski and Justin Dorsey. All four owners are employed full-time by ACG. ACG is not owned, in whole or in part, by a money management firm or firms.

5) Provide as **Exhibit 4** an organization chart of the firm and describe the relationship between the investment advisory group and any other components of the firm. If the firm offers asset management services or brokerage services, describe any overlap in personnel between those components and the investment advisory group.

ACG began as an institutional investment consultant. But we found ourselves asking the rhetorical question: how can we give those clients a "real" perspective of investments (e.g. the yield curve) that is not based on a quarterly abstract? (In our endowment/foundation consulting practice, the value of that hands-on perspective is especially valuable as the management of cash-flow is particularly important). So, in 2006 we launched a fixed-income investment management arm which actually buys/sells fixed income for institutional clients (ex: bank and insurance company reserves).

So, did its addition add value to our investment consulting practice? Yes! Every day (several times a day) our investment consultants wander down to our trading-desk to talk with our fixed income portfolio managers about the yield curve movement. For them, it has become a living/breathing – and not some sort of once-a-quarter - number. Thus, it makes them not just more confident in their quarterly client meetings – but, more important, insightful about what the quarter-end report portends.

To belabor the point, the bond market is three times larger than the equity market and in very real terms, where the yield curve goes – stocks are bound to follow.

The second benefit to our investment consulting clients is that our consultants have an even more sophisticated set of software systems to access for their quarterly (and interim) reports. Probably most significant is Bloomberg which gives us access to "real-time" changes in the market (which can also be captured for future discussion re: relevant mid-quarter events).

With respect to your question about whether we are a broker-dealer: we are not. All of our fixed income securities are purchased on the open market at best execution. And our fixed income investment management compensation is fee only. Thus, we don't accept commissions, overrides or any "other" sort of compensation.

The only personnel overlap between those two departments is that our Director of Research (Josh Howard MBA, CFA) oversees the credit research for both our investment consulting and fixed income investment management.

We also have a small wealth management department. To be clear, we do NOT accept retirement plan participant "roll-overs". Period. But from time to time non-participants have approached us and asked us to manage their money. As part of that department, we have a relationship with Charles Schwab where their regional advisors can use us as a fixed-income separate account manager. The only crossover of personnel in that department is that Charles Langowski oversees it and also acts as the lead investment consultant to a number of retirement plans.

Against that backdrop, Dan Schroder oversees the retirement plan investment consulting practice, Patrick Larson oversees the institutional fixed-income investment management practice and Charles Langowski oversees the wealth management practice. Justin Dorsey is the firm's chief compliance officer. **(See Exhibit #4).**

6) Within the past three (3) years, have there been any significant developments in the firm such as changes in ownership, restructuring, or personnel reorganizations? If yes, please describe. If the firm anticipates significant structural changes in its organization within the next 12 months, please describe the anticipated changes.

No.

7) Provide the percentage of total firm revenues that came from each of the categories listed below for each year indicated:

	2011	2012	2013
Consulting with Plan Sponsors	85%	85%	85%
Money Management Activities	15%	15%	15%
Services to Money Managers	0%	0%	0%
Plan Participant Investment Advice	0%	0%	0%
Other (Please Describe)	%	%	%
TOTAL	100%	100%	100%

8) Describe the types of services the firm provides to investment management firms and the fee arrangements that typically apply. Does the firm directly or indirectly charge money managers or fund management companies to be included in the firm's manager research database? Does the firm receive revenues from money management firms or fund management companies for their attendance at conferences or meetings sponsored by the firm? Does the firm receive any revenues from custodian banks? If yes, please describe the types of services provided and the fee arrangements that typically apply.

We do not provide services to investment management firms per se. To be comprehensive in our answers we will explain our relationship with Charles Schwab through its "Separate Account Network" (SAN). Charles Schwab has several different platforms through which its internal brokers – whom it calls Financial Consultants or FC's – can access professional money managers. The purpose of its SAN program is to divide the U.S. into regions and then post "regional" money managers per region. Further, Charles Schwab puts each SAN money manager through a due diligence process so that its FC's can then discuss with their clients/prospects without further review. We are on the Charles Schwab midwest SAN platform. Currently we offer two products that its FC's can choose from: customized municipal bond portfolios and a variable rate fixed income strategy.

We do not charge money managers or fund management companies to be included in the firm's manager research database.

We do not receive revenues from money management firms or fund management companies for our attendance at conferences or meetings sponsored by the firm.

We do not receive revenues from custodian banks.

9) Has the firm, its principals or any affiliate ever (i) been the focus of a non-routine Securities and Exchange Commission (SEC) inquiry or investigation or a similar inquiry or investigation from any similar federal, state or self-regulatory body or organization, (ii) been a party to any litigation concerning fiduciary responsibility or other investment-related matters, (iii) submitted a claim to its errors and omissions, fiduciary liability and/or fidelity bond insurance carrier(s) or (iv) been convicted of, or pled guilty or no contest to, any crime? If yes to any, please provide details.

No.

10) Has the firm ever received loans from any money management firm, any fund management company, or any of their respective subsidiaries or principals? If yes, please explain.

No.

11) Does the firm, its principals, or any affiliate, own any part of a money management firm, fund management company, broker-dealer, or other organization that sells services to institutional investors and/or SEC registered investment advisors? If so, identify the firm(s) and describe the service and the relationship to the advisory group.

No.

12) Does the firm, its principals, or any affiliate have any "strategic alliance" with any broker, investment management firm, or fund management company? If yes, please disclose with whom and describe the nature of the alliance.

We do not have a "strategic alliance," but as previously described, we are an "approved" separate account manager on the Charles Schwab midwest "SAN" platform.

13) Does the firm offer a broker/dealer facility to plan sponsor clients to pay for or offset its fees? Does the firm offer additional services to plan sponsors through its broker/dealer?

No. We have no broker-dealer affiliation.

14) Does the firm receive any soft dollar revenues from investment managers or fund management companies through an affiliate broker? If yes, what percentage of soft dollar revenues in each of the last three (3) calendar years was due to client direction?

No.

15) Identify any potential conflicts of interest that a) could exist between WSU and other client interests, or b) may result from other investment products or services provided by the firm or affiliated organizations. Describe the firm's policies and procedures that are designed to prevent conflicts from occurring. Provide as **Exhibit 5** the firm's conflict of interest policy and Code of Ethics.

- Provide the coverage amount and name of carrier for the following:
- Fiduciary liability insurance
- Errors and Omissions insurance
- Any other applicable insurance

As an SEC registered Investment Advisor, we are obligated to conduct our investment advisory activities in compliance with the IAA and its applicable regulations. The IAA states that, "[I]t shall be unlawful for any investment adviser . . . to employ any device, scheme, or artifice to defraud any client or prospective client." See IAA Section 206. Periodically, the SEC interprets the IAA in published Investment Advisors Act Releases. In Release No. 1393 (November 29, 1993), the SEC interpreted Section 206 by stating that, "the Investment Advisers Act imposes on investment advisers an affirmative duty to their Clients of utmost good faith, full and fair disclosure of all material facts, and an obligation to employ reasonable care to avoid misleading their Clients."

The "Discussion" preamble to the SEC's Final Rule amending IAA Rule 206(4)-7 re: Compliance Programs of Investment Companies and Investment Advisers, states:

"[e]ach adviser, in designing its policies and procedures, should first identify conflicts and other compliance factors creating risk exposure for the firm and its clients in light of the firm's particular operations, and then design policies and procedures that address those risks. We expect that an adviser's policies and procedures, at a minimum, should address the following issues to the extent that they are relevant to that adviser.

a. Portfolio management process, including allocation of investment opportunities among clients and consistency of portfolios with clients' investment objectives, disclosures by the adviser, and applicable regulatory restrictions;
b. Trading practices, including procedures by which the adviser satisfies its best execution obligation, uses client brokerage to obtain research and other services ("soft dollar arrangements"), and allocates aggregated trades among clients;
c. Proprietary trading of the adviser and personal trading activities of supervised persons;
d. The accuracy of disclosures made to investors, clients and regulators including account statements and advertisements;
e. Safeguarding of client assets from conversion or inappropriate use by advisory personnel);
f. The accurate creation of required records and their maintenance in a manner that secures them from unauthorized alteration or use and protects them from untimely destruction;
g. Marketing of advisory services, including the use of solicitors;
h. Processes to value client holdings and assess fees based on those valuations;
i. Safeguards for the privacy protection of client records and information; and
j. Business continuity plans."

ACG acknowledges that it is a fiduciary to its investment advisory clients and in an effort to protect its clients and prospective clients, ACG uses reasonable efforts to make full and honest disclosure of all material conflicts of interest to its clients and prospects. And through its Compliance Procedures (which use the SEC's template above) and through its other supervisory functions, ACG uses reasonable efforts to ensure that its clients are safeguarded from misleading them about material facts and avoiding conflicts of interest. **(See Exhibit #5).**

We purchase fiduciary/E&O ($3 Million) and fidelity bonding ($2 Million) through Travelers Insurance.

16) Is it the firm's policy to impose any limitation on liability through its contract with clients? If yes, please describe.

The misleadingly straightforward answer to this question is that fiduciary liability cannot be restricted contractually. But, there is more to it than that. E.g. what "can" be contractually agreed to is which fiduciary duties will be undertaken. As pointed out earlier, the term "fiduciary" covers more than just investments. And even within the scope of investments, there are acts that fall outside the scope of what we are willing to undertake. So, a more complete answer to your question is that in our Service Agreement, we break-out those investment-related fiduciary duties that we "will" and "will not" undertake.

The following is an excerpt from ACG's Retirement Plan Investment Advisory Service Agreement:

A. In the performance of ACG's duties, the Client understands and agrees that:

1. *ACG's services are limited to the selection, recommendation and monitoring of publicly traded mutual funds; insurance company separate accounts (including but not limited to guaranteed investment contracts which may be part of the insurance company's general account); and bank collective trust funds (including but not limited to stable value funds) which are made available through the directed trustee or custodian of the Plan's third party administrator. While ACG reviews those managers' portfolio composition for style consistency, it does not review those managers' buy/sell decisions with regard to their choice of individual securities nor does (or can) it monitor those trades for best-execution;*
2. *ACG relies on the accuracy and reliability of certain publicly available software systems to help it monitor publicly traded mutual funds; insurance company separate accounts; and bank collective trust funds and does not perform audits on the information provided by these systems. Further, ACG may receive information directly from the investment companies themselves and relies on the accuracy and reliability of the information provided directly by the investment company.*
3. *ACG is a co-fiduciary and as such does not have discretionary trading authority. Rather, changing investment options in a Plan will be done in consultation with and at the direction of the Plan's Investment Committee;*
4. *AGC does not vote, distribute or otherwise accept responsibility for the handling of Proxies issued in conjunction with any of the investments of this Plan;*
5. *ACG is not expected to review nor exercise any control over which custodian the respective investment vehicles use;*
6. *ACG is not expected to review securities lending or use of derivatives by any of the respective investment vehicles and the client expressly acknowledges that if it has any questions regarding those subjects it will pursue those on its own and without any reliance on ACG;*
7. *ACG's co-fiduciary duties extend only to those plan assets to which it gives investment advice for a fee. Thus, if a plan offers self-directed brokerage accounts or has a separate plan altogether (such as a Money Purchase Pension Plan) ACG will not provide investment review or guidance in either illustration and the Plan Sponsor understands and agrees that ACG will not be a co-fiduciary with respect to those assets;*
8. *ACG's duties hereunder do not extend to the fulfillment of Title 29, Part 2550, 29 CFR 2550.404(c). In other words, it is expressly understood that 404(c) compliance is the Plan Sponsor's duty and that it has not been delegated to ACG in any way. As such, the client agrees to hold harmless and indemnify ACG for any claims alleged against it arising out of or involving that code section;*

9. *This Agreement does not include the delegation to, or control over by, ACG of plan record keeping and/or administration, and ACG is not the "administrator" of the Plan. ACG does not complete ministerial duties including but not limited to discrimination testing; tax form preparation such as Form 5500 or its related schedules; payroll file accuracy or contribution timeliness; provide prospectuses or any forms that may be used by the clients' record keeper and/or administrator;*
10. *ACG may help its clients from time to time with the preliminary drafting of Notices that may be required by ERISA or any of its regulatory/enforcement agencies including but not limited to the Department of Labor, it does not by doing so take on the duty to prepare such Notices or deliver them to Plan Participants and by signing this Agreement the Plan Sponsor specifically acknowledges that it is its duty, and not ACG's, to prepare and disseminate such Notices; and*
11. *ACG only takes on its investment co-fiduciary status prospectively as of the date of the execution of this Agreement and is expressly exempted from any liability arising out of the management of this plan prior to its retention.*

17) Briefly describe the firm's disaster recovery plans, including plans for an avian flu pandemic.

ACG has a comprehensive disaster recovery plan to address data retention and protection, loss of access to the office, and the inability of employees to travel to the office.

To begin with, we use a third-party vendor (MyTech) to "host" back-up servers which capture complete server activity every 15 minutes. That data is archived for 5 years. It includes all work-station activity including emails. Scans of all client contracts are stored on a limited-access computer-drive indefinitely. In addition, ACG has installed an anti-hacking software system (Sonic Wall) and has engaged another service provider (Cerdant/PCI Sentry) to monitor Sonic Wall on a continuous basis. ACG has a number of security procedures to protect against possible "physical" malicious activity by intruders. These include front-desk sign-in/sign-out of all visitors, locked cabinets containing client information, locked filing rooms and after hour magnetic cards to activate elevators.

ACG has physical disaster recovery procedures for temporary relocation complete with off-site computer terminals.

Finally, ACG maintains a standardized system for storing client files. In the event employees are unable to work, other employees are able to access all relevant client files.

Copies of all of our compliance procedures are available to all of our clients upon request.

18) Provide as **Exhibit 6** the firm's most recently filed Form ADV -- Part I and II.

(See Exhibit #6).

Experience

1) Describe the firm's relevant experience providing advisory services to large governmental and non-governmental retirement plan clients in each of the following areas:

- Investment Committee development

Yes, we provide investment committee development services. ACG works closely with each client in either the formation of a new Investment Committee or working with existing committees to help its members understand their roles and responsibilities to the plan, its participants and their beneficiaries. We also help them to understand what their fiduciary responsibilities are when they agree to become a

Committee member. In addition, we will work with your committee members to educate them on industry "best practices" in order to be an effective Committee. We have prepared presented formal presentations on both the general fiduciary duties of Investment Committees **(See Exhibit #12)** and the more specific (and important) subject of "fee analysis." **(See Exhibit #13).**

A contributing factor to an Investment Committee's success is having representation from across the organization. Committee's dominated by a particular business function, such as the Finance or Human Resources tend to be less productive than Committees with individuals from those areas as well as areas such as R&D, Communications, Administration, Facility Services, etc. We encourage our clients to look for potential Committee members that are not as senior within the organization. These are the Committee members in the best position to share the opinions of the "average" participant in the plan.

ACG is a proponent of memorializing the roles and responsibilities of the Committee in the Investment Policy Statement which we address below.

- Investment Policy development

Yes, we have experience. Too often, Investment Policy Statements ("IPS") ignore setting-forth their primary purpose which is to specify 1) the fiduciary duties which it seeks to satisfy and 2) standard of care which it will use to fulfill those duties. Those omissions can have an ongoing negative impact because the IPS ought to be a self-explaining document to not just current committee members – but to successor committee members as well.

In the case of a not-for-profit employer-sponsored retirement-plan, the first question is what fiduciary standard is going to apply: state-law or ERISA? The second question is: what investment standard of care will the committee use to gauge its investment decision making?

If the answer to the first question is ERISA – then we think it makes sense (to guide current and future committee members) to actually integrate into the IPS ERISA's general overview of "Fiduciary Duties":

ERISA Title I Act. Sec. 404. (a)(1)

A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and –

(A) For the exclusive purpose of:
  (i) providing benefits to participants and their beneficiaries; and
  (ii) defraying reasonable expenses of administering the plan;

(B) with the care, skill, prudence, and diligence under the circumstances then prevailining that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

(C) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(D) in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with the provisions of this title.....

29 CFR 2550.404c-1 - ERISA section 404(c) plans

(d) ***Effect of independent exercise of control—***

  (1) ***Participant or beneficiary not a fiduciary.*** If a participant or beneficiary of an ERISA section 404(c) plan exercises independent control over assets in his individual account in the manner described in paragraph (c), then such participant or beneficiary is not a fiduciary of the plan by reason of such exercise of control.

(2)*Limitation on liability of plan fiduciaries.*

(i) If a participant or beneficiary of an ERISA section 404(c) plan exercises independent control over assets in his individual account in the manner described in paragraph (c), then no other person who is a fiduciary with respect to such plan shall be liable for any loss, or with respect to any breach of part 4 of title I of the Act, that is the direct and necessary result of that participant's or beneficiary's exercise of control.

<u>29 CFR 2550.404c-1 (As amended October 20, 2010):</u>

(iv) Paragraph (d)(2)(i) does not serve to relieve a fiduciary from its duty to prudently select and monitor any service provider or designated investment alternative offered under the plan.

With respect to the investment standard of care, we recommend to our clients that they specify Modern Portfolio Theory ("MPT"). While this is not the only investment standard of care option, it is referenced elliptically and expressly in many regulations and court cases. And, its most pertinent citation is in the preamble to DOL Interpretative Bulletin 96-1 which gave fiduciary safeharbor protection (by expressly characterizing them as "education materials") to Model Portfolios:

<u>Generally Accepted Investment Theories</u>

"Several commenters requested clarification of the requirement that asset allocation models and interactive investment materials must be based on ``generally accepted investment theories that take into account the historic returns of different asset classes (e.g., equities, bonds, or cash) over defined periods of time.'' The Department included this requirement to assure that, for purposes of the safe harbors, any models or materials presented to participants or beneficiaries will be consistent with widely accepted principles of modern portfolio theory, recognizing the relationship between risk and return, the historic returns of different asset classes, and the importance of diversification." <u>See</u> DOL IB 96-1, <u>Participant Investment Education</u>, Final Rule, 29 CFR Part 2509, Vol. 61, Number 113, pp 29585-29590, 29588 (06/11/1996).

- Investment Menu selection

Yes, we provide investment menu selection services. ACG has significant experience assisting large market clients with the development and/or modification of investment menus. Through the RFP and addendum process you have indicated the University offers two providers in your 403(b) Plan: TIAA-CREF with its 15 fund options and Fidelity with 180+ fund options. The fact that you are going through this RFP process suggests to us that you may be open to reviewing the investment menu and potentially modifying the investment choices to better assist participants in building a diversified investment portfolio based on their overall risk tolerance.

Behavioral Finance has shown that offering too many investment options to participants can actually lead to sub-optimal performance results. The obvious reason is information overload and its direct impact on a participant ability to make a decision. This is often referred to as "analysis paralysis". The other detractor is the counterintuitive observation that when faced with significant choice, participants that are able to make a decision, do so sub-optimally by investing in what they know. Therefore, there is an inverse relationship between the number of investment options offered in a plan and the amount selected by the average participant.

It is important to remember that under ERISA 404(c) a plan needs to offer an array of investments across three asset classes: Equity, Fixed Income and Cash (principal protection). This holds true today as it did when ERISA was first introduced back in 1974. Through the years, the investment industry has taken these basic asset class building blocks and refined them into further sub-asset classes. An example of the proliferation of the equity asset class is listed below:

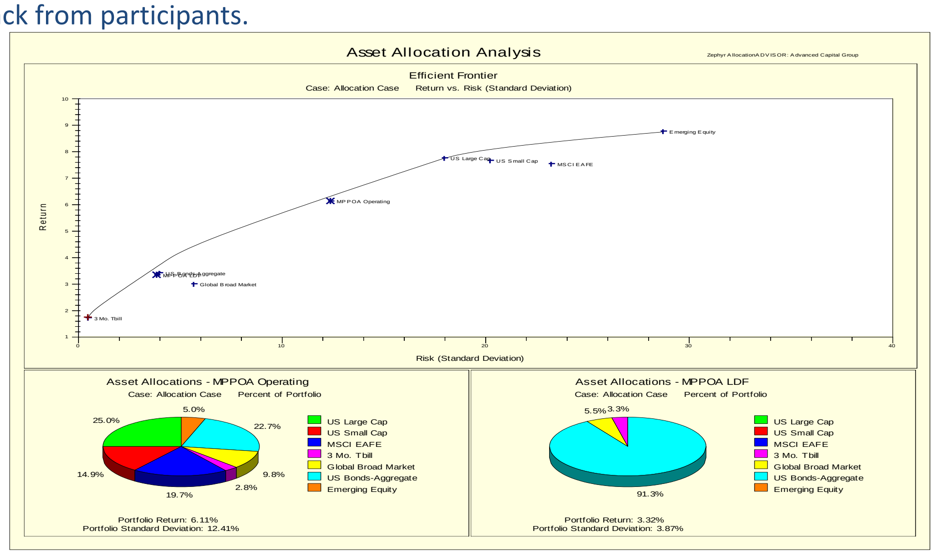
The Proliferation of the Equity Asset Class

Equities → Domestic Equity → Large Cap, Small Cap → Large: Value/Blend/Growth
Mid: Value/Blend/Growth
Small: Value/Blend/Growth
Micro: Value/Blend/Growth

Foreign Equity → Large Cap, Small Cap → Large: Value/Blend/Growth
Mid: Value/Blend/Growth
Small: Value/Blend/Growth
Emerging Markets
Frontier Markets

ACG works closely with each investment committee to determine what they view as the most important aspect of offering a retirement plan to their participants. Invariably, getting participants prepared for retirement heads the list. With this as the primary goal, ACG works closely with the Committee's to evaluate the investment array and suggest changes, some of them being wide sweeping, to produce an investment lineup that not only covers the major asset class categories but does so efficiently allowing participants to construct from a manageable number of investment options to produce a portfolio that maximizes the participants return for a given level of risk, or said another way, minimizes the risk for a given level of return.

ACG feels strongly about the concept of Modern Portfolio Theory (MPT). In simple terms individual funds should be evaluated not only on their own standalone risk/return merits, but also on the diversification benefits they bring to the plan and participant portfolios. We will work with you to evaluate each investment lineup. In our experience with lineups as large as the one offered by Fidelity, there is a substantial duplication of investment options which can be streamlined quite easily with little if any feedback from participants.



- Money manager and fund manager evaluation and monitoring

Once the menu has been determined, i.e. the asset and sub-asset classes Wayne State intends to provide to its participants, ACG will work though a detailed review process to identify best in-class managers to fill the various slots within the Plan. This is often easier said than done, simply because of the amount of investments offered in the marketplace. Ten years ago the decision was much simpler because the recordkeeper often required the plan sponsor to select from proprietary funds. However, today to be competitive most if not all record keepers have needed to embrace an open architecture platform. As a result, ten years ago we may have assisted a client by choosing between three or four large cap growth options for the plan. Today, we may begin a typical large cap growth search by starting with a universe of over 2,000 funds.

Through the years we have developed a process for screening managers based on attributes we feel are most important and correlate highest to a managers overall success. This preferred based screening helps us to narrow this list of potential options to a more manageable number. We next evaluate each of the managers on both a qualitative and quantitative basis to understand not only they philosophy and process, but also to determine whether it is repeatable or not. Next we review the overall performance results, risk characteristics and manager style to make sure the manager is meeting the performance metrics found in the Plan's Investment Policy Statement. Additionally, the manager is then evaluated in terms of the overall diversification benefits it will bring to the portfolio.

Once the managers have been identified and selected, ACG will play a leading role in the ongoing monitoring of each investment manager. We will update the Committee on the progress of the funds on a quarterly basis through our Quarterly Investment Review. Although our investment consultants may interact with the Committee on a quarterly basis, it important to remember that our research group is continuously monitoring the funds through manager meetings, wire services, and industry events. If a research analyst deems a fund event important enough, they will bring it to the attention of the investment consultant who in turn will apprise the Committee of any developments. It's important to stress that this is done continuously.

- Transition management

Yes, we have experience with multiple types of transition management. We view transition management two ways: at the macro-level such as changing a plan record keeper and at a micro-level such as changing an investment manager from the plan.

Macro level (plan) transition management: When a decision has been made to replace a record keeper the transition management begins. ACG works with the client and the new provider to review contracts and service agreements, to ensure services offered and costs are as agreed upon. We attend all conversion calls to ensure the process runs smoothly and to provide our insight and experience. **(See Exhibit #14).**

Micro level (fund) transition management: When the Committee has decided to change a fund in the plan, ACG will assist the Committee by working directly with the record keeper to identify the timeline of the fund change, provide direction regarding the investment options that should be removed, added or replaced, attend any calls as needed and help in the development of participant communication materials. **(See Exhibit #15).**

- Mutual fund performance measurement

Yes, we provide mutual fund performance measurement to our clients. Once a plan sponsor has taken all of the steps necessary to form and educate and investment committee, draft an investment policy statement, identify the asset classes to be offered in the plan and identified "best-in-class" managers to complete the plan, the plan sponsor must now turn their attention to the ongoing monitoring of not only the investment options but also the associated fees of both the manager and the record keeper. ACG will play a lead role in the oversight of each investment option offered in the plan by evaluating each fund with the specific monitoring guidelines in your Investment Policy Statement. Each fund will be evaluated on both a quantitative as well as qualitative basis.

The key to performance measurement and the decision to stay with or replace a struggling manager comes down to research, process, solid capital market expectations and the potential impact they may have on a manager's approach. Simply put, we want a thorough understanding of why a manager may have struggled. Was it something outside of the manager's control, such as a broad-market sell-off as opposed to something in their control such as having made significant sector-bets?

We are always mindful that manager changes are disruptive, and therefore we make our recommendation based on all available information with any eye towards how the manager's particular investment style may perform given our economic outlook.

- Investment advice to plan fiduciaries

One of the cornerstones of our founding was our acknowledgement since inception and in-writing that we are a fiduciary because we openly acknowledge that we provide "advice for a fee." Back then, a number of investment consultants hung their hats on the thin reed that there was a substantive (e.g. non-fiduciary vs fiduciary) difference between giving "consultation" vs "advice" *for a fee*. We thought – and think – that such distinctions are superfluous. And we also thought that hiding behind that nebulous distinction was a conflict of interest because it puts the interests of the consultant before that of the client. So in ERISA's terms, we have offered to be a 3(21) advisor since our inception. (And we also think that it would also be disingenuous on our part if we didn't at least explain to our clients that they can delegate "discretionary" oversight to a 3(38) advisor – subject to the advisor's willingness to serve in that capacity).

The often overlooked question when it comes to retirement plan investments is: what standard of care should the plan's fiduciaries use in selecting them? And, we think that purposefully walking our clients through this question and their answer is the only place to start. For ERISA, the answer is "Modern Portfolio Theory" (MPT). ERISA repeatedly elliptically and directly refers to it. But, MPT is not the only investment management standard of care in existence. And we will work with whatever one our client's direct us to use. But, when they look to us – we advise them to use MPT.

The reason that MPT was game-changing was that until that time common trust law (since changed) dictated that each investment be evaluated on its own merits – without reference to how its accompanying "risk" might affect the portfolio as a whole.

So, our starting point is to select and monitor individual investments both with regard to their expected returns and the effect of their expect volatility on the portfolio.

Our firm has been a leader in the industry working with recordkeepers on the development of "customized and automatically rebalanced model portfolios." What's the difference between a Model Portfolio and a Lifestyle or Glidepath fund? In a word: customization. And, they don't have to be mutually exclusive. For instance, some clients like the idea of customized "risk based" portfolios *in conjunction with* an array of "age based" Glidepath funds. (Likewise, a number of our clients use customized Model Portfolios to support the participants' affirmative-elections and Glidepath funds for their QDIA's). And one final word about Model Portfolios. We don't charge for them. That is, it's simply a matter of making available to participants the very same MPT modeling that is used to select the core fund lineup in the first place.

Investment Fund Election

Fund Type	Fund Name	Current Elections	Custom	Model Portfolios: Cons	Mod Cons	Mod	Mod Aggre	Aggre
Stable Value	Morley Inst'l Invest Stable A	0.0%	%	24%	12%	0%	0%	0%
Short-Term Bond	Vanguard Short-Term Investment-Grade	0.0%	%	0%	0%	0%	0%	0%
Intermediate Bond	PIMCO Total Return Instl	10.0%	%	45%	40%	20%	0%	0%
Balanced	Dodge & Cox Balanced	10.0%	%	0%	0%	20%	25%	0%
Large-cap Value Stock	Westwood Equity AAA	0.0%	%	17%	6%	10%	0%	25%
Stock Index	Schwab S&P 500 Index Inv	20.0%	%	4%	5%	0%	10%	50%
Large-cap Blend Stock	MFS Massachusetts Investors Tr A	0.0%	%	2%	4%	24%	10%	12%
Larg-cap Growth Stock	Wilshire Large Company Growth Invmt	20.0%	%	2%	21%	8%	6%	8%
Mid/Small-cap Value Stock	Janus Mid Cap Value Investor	0.0%	%	0%	2%	4%	10%	12%
Small-cap Growth Stock	Managers Special Equity Managers	20.0%	%	0%	0%	0%	0%	0%
Global	American Funds Capital World G/I R4	20.0%	%	0%	0%	0%	0%	0%
International	Julius Baer International Equity A	0.0%	%	6%	10%	14%	18%	22%
Total		100%	100%	100%	100%	100%	100%	100%

Going one step further, we believe that the day will come when plan sponsors will begin to embrace *in plan* "deferred fixed annuities" as a way of ensuring that some portion of the participants' savings will "last a lifetime." In 2012, the IRS published a "proposed regulation" that would have given "qualified longevity annuity contracts" (QLACs) – e.g. deferred fixed annuities – special Required Minimum Distribution treatment. (See Lifetime Annuity Guidance Highlights at: http://www.irs.gov/Retirement-Plans/Lifetime-Annuity-Guidance-Highlights). To date, that proposed regulation has not been finalized. But we think that even in its "proposed" state, it legitimizes the conversation. And one potential use of them is to integrate them into a Model Portfolio in lieu of some portion of fixed income / stable value. **(See Exhibit #16).**

It is worthwhile to flesh-out two of our services which are within the scope of your question – but about which you do not specifically ask: 1) the monitoring of investment-related fees and 2) fiduciary updates.

Monitoring of investment-related fees:

It's not that "fees and expenses" have ever been withheld from participants. But, they were usually embedded in rarely-read prospectuses. So until 2010, monitoring investment related fees was simply a "best practice." But in 2010, Reg. 404(c) was amended – in concert with the adoption of 404a-5. (To fill the "optional" safe harbor void, 404a-5 was required of "all" ERISA participant-directed plans – and 404(c) was simultaneously amended to be consistent with 404a-5).

In its preamble to 404a-5, the DOL explains that:

> "[A] plan fiduciary … must take steps to ensure that [] participants and beneficiaries, on a regular and periodic basis, are made aware of their rights and responsibilities with respect to the investment of assets held in, or contributed to, their accounts and are provided sufficient information regarding the plan, including plan fees and expenses, and *regarding the designated investment alternatives available under the plan, including fees and expenses attendant thereto*, to make informed decisions with regard to the management of their individual accounts." (Emphasis added). See FR Vol. 74, No. 202, 29 CFR Part 2550, pp. 64910, 64911(Wednesday, October 20, 2010).

And for its part, the 2010 amendment to 404(c) reads – in relevant part – as follows:

> "Paragraph (d)(2)(i) does not serve to relieve a fiduciary from its duty to prudently select and *monitor* any service provider or designated investment alternative offered under the plan." (Emphasis added). See FR Vol. 74, No. 202, 29 CFR Part 2550, pp. 64910, 64946 (Wednesday, October 20, 2010).

Against that backdrop, fee disclosure/monitoring has always been one of the cornerstones of our firm's founding. In short, we have regularly reviewed the reasonableness of investment expenses with our clients since our inception. So, the adoption of those regulations merely formalized what we had been doing for years.

A more subtle, but equally important question is: how are those fees allocated among participant accounts? That is, are a few (large account balances) subsidizing the cost of the many? Or, should fund revenue sharing be avoided altogether? E.g. is a per-head cost-allocation more equitable? Or should it be some combination of the two? Ultimately, the point is that there are a number of moving parts to this question and we help our clients explore all of them as part of our standard service arrangement.
Set out below is an example of our "quarterly" plan-expense review broken down between all of the investments in the plan. Like the entirety of our quarterly report, we generate this report ourselves. **(See Exhibit #17).**

Fee Analysis

CSM Corporation 401(k) Retirement Plan

			Annual Expense Ratio				Estimated Annual Revenue Sharing		Estimated Annual Wrap Fee		Estimated Annual Revenue	
Fund	Balance	Percent of Assets	(%)	($)	Peer Group	+/- Idx	(%)	($)	(%)	($)	(%)	($)
Wells Fargo Stable Value	$ 2,209,768	9.96%	1.04%	$ 22,982			0.49%	$ 10,828.00	0.00%	$ -	1.04%	$ 22,982.00
TCW Total Return Bond N	1,539,604	6.94%	0.74%	$ 11,393			0.39%	$ 6,004.00	0.00%	$ -	0.74%	$ 11,393.00
Vanguard Total Bond Markets Ind	365,206	1.65%	0.10%	$ 365			0.00%	$ -	0.00%	$ -	0.10%	$ 365.00
Vanguaurd Inflation-Protected Securities	343,492	1.65%	0.20%	$ 687			0.00%	$ -	0.00%	$ -	0.20%	$ 687.00
Metropolitan West High Yield B	409,853	1.85%	0.79%	$ 3,238			0.39%	$ 1,598.00	0.00%	$ -	0.79%	$ 3,238.00
AllianzGI NFG Dividend Value A	2,241,800	10.11%	1.06%	$ 23,763			0.39%	$ 8,743.00	0.00%	$ -	1.06%	$ 23,763.00
	$ 22,181,980	100%	0.78%	$ 173,477			0.24%	$ 53,220.00	0.00%	$ -	0.78%	$ 173,477

Net Investment Expense: 0.54%

Annual Recordkeeping & Trustee Fees		Recordkeeping Costs: Flat Participant	Recordkeeping Costs: Asset-based
Estimated number of participants:	$ 637		
Base Fee:	$ -	$ -	$ -
Flat Participant Fee:	$ 126.00	$ 80,262	$ -
Asset-based Fee:		$ -	$ -
Trustee Base Fee:	$ 1,500.00	$ -	$ 1,500.00
Trustee Asset-based Fee:	0.040%		$ 8,872.79
Sub-Total Estimated Annual Plan Costs:		$ 80,262	$ 10,373
Total Estimated Annual Plan Record keeping & Trustee Cost:		$ 90,635	0.41%

Finally, it is important that our clients periodically monitor our fees too. To that end, we note that your RFP speaks to a 3 year arrangement. And, we applaud that and assume that if hired, the reasonableness of our fees too would be reviewed periodically.

Fiduciary Updates:

Just as fee monitoring is an integral/ongoing part of our quarterly reports – so is Regulatory Review. Hopefully it goes without saying that we are not a law firm and we do not give legal advice. And, we are fully aware that our clients – and we – are bombarded daily with internet "fiduciary alerts." So, what we try to do is be selective and highlight those issues that we think might be of interest to our clients. **(See Exhibit #18).**

April 2014: Regulatory Review

Fiduciary Liability Insurance

We frequently get questions about fiduciary liability insurance protection. Some are quite basic. Such as "why do I need it?" and "aren't I protected by the corporate veil?" (The answers are you a personally liable and need to be concerned and no you're not.) Other questions get very much into the insurance weeds.

ACG is not an insurance expert and we recommend you consult with those that have specialized expertise when considering insurance. But we do think we know some of the questions plan sponsors and their executives should be asking about this coverage.

- If you have directors and officer's (D&O) coverage, are you sure that coverage extends to your acts as an ERISA fiduciary?
- Are the limits on the extent of that coverage separate from the D&O limits are within those limits? This can be a big problem when the carrier tells you reach the limits of what it is contractually obligated to pay.
- When does the coverage begin? Many carriers take the position in a DOL investigation that they have no duty to defend until the DOL makes a finding in a so-called Voluntary Compliance or VC setting forth findings of a fiduciary violation. Some carriers offers endorsements called "pre-claim investigation" coverage to solve this problem.
- Does the policy provide optional coverage for costs associated with an insured's voluntary effort to bring its plan into compliance with certain requirements of federal law under IRS and DOL correction programs, without requiring that a claim to be made. If plan purchases the coverage, understand the plan has recourse against you?
- Who is insured? Typically the insured include the employer and the employer's officers, directors, and employees acting as fiduciaries or as members of any employee benefit committee, investment management committee, or administrative committee for the plan. Check your policy.
- Do you understand who is not insured? Third party providers such as TPAs, investment managers and advisers are not generally covered. These entities, however, should be covered under their own errors and omissions policies. Do your agreements with them obligate them to have this type of coverage?

We doubt that enough questions have been asked. The point is that every insurance policy is unique, having its own terms, conditions, and limitations. It is very important that employers understand the protection their policies provide.

The Markets Are Rigged?

On Sunday, March 30th, *60 Minutes* interviewed Michael Lewis the author of the new book "Flash Boys." Flash Boys is about traders who make money from speedy computerized trading. The industry calls this activity **High Frequency Trading or HFT** and it has both high profile detractors and supporters.

What is it? In short, HFT is a trading system that takes advantage of the time lag, albeit very small, between the placement of a trade and the receipt of that trade at the market. For example, a stock might cost $20 per share at placement, but by the time the trade arrives the $20 stock may no longer available. The HFT may have bought it. As a result, the stock available for purchase might cost $20.01 or $20.02; not $20.00.

What's the issue? John Rekenthaler, a columnist for Morningstar, says hedge funds "have been significantly hurt by HFTs"...hedge fund performance has plummeted since the mid 2000s , when HFTs came to prominence." He finds it interesting that hedge funds - who were "de facto micro-traders" before HFTs - would be one of the first to cry foul.

2) Explain how the team that would be dedicated to WSU would function. Identify who will be the Primary Advisor, who will serve as the back-up advisor in situations when the Primary Advisor could not attend a meeting, and who will perform the analytical work that is required by the relationship.

Brad Tollander and Teri Richardson will act as consultants to your account. In your terms, Brad will be the "Primary Advisor." But, Teri will be integrally involved. And, that will mean that both Brad and Teri will be at your quarterly meetings. Behind the scene, Brad and Teri will coordinate all investment research issues with our internal research group.

3) Provide as **Exhibit 7** biographies of the personnel who will be assigned to the WSU relationship. The following information must be included (please provide responses as of December 31, 2013):
   - Full name
   - Title
   - Current duties - Describe current duties at the firm
   - Role - Describe the role this person would have with WSU
   - Total years of institutional investment experience
   - Total years of institutional investment advisory experience
   - Total years with the firm
   - Total current number of assigned accounts for which this person has Primary Advisor responsibilities
   - Total current number of assigned accounts for which this person has support or back-up responsibilities
   - Name, plan type, length of relationship, and size of each assigned client account for which this person serves as a Primary Advisor
   - Name, plan type, length of relationship, and size of each assigned client account for which this person serves in a support or back-up capacity
   - Education - List all post-secondary degrees, professional designations, licenses, etc., the issuing institutions, and year awarded
   - Employment history - List employers, dates of employment, and functions performed as it relates to the scope of services specified herein

   (See Exhibit #7).

4) Provide as **Exhibit 8** biographies of the firm's other key investment advisory personnel (defined as any position including and above the senior associate level). Provide the following information:
   - Full name
   - Title
   - Current duties - Describe current duties at the firm
   - Total years of experience as an investment advisor to institutions
   - Total years with the firm

   (See Exhibit #8).

5) Provide as **Exhibit 9** a table that lists all key personnel (defined as any position including and above the senior associate level) that have departed the firm's advisory group in the five-year period ended December 31, 2013. Provide the following information: MM/YY of departure, name of person, title, division or assigned group, and the name of the person that replaced them. Sort the information by date of departure so that the most recent departure appears first on the list.

   (See Exhibit #9).

6) Describe the firm's compensation and incentive program for its advisors and other professionals. What incentives are provided to attract and retain superior individuals? How does the firm tie client performance and satisfaction to an advisor's compensation? What percentage of an advisor's annual compensation is based on client performance or satisfaction?

   50% of annual bonuses are tied directly to client satisfaction.

7) Complete the following table by providing the number of institutional clients and the total assets under advisement of the firm's full-service retainer investment advising relationships for each of the last five years. (Performance evaluation services or project-based work alone are not considered full-service retainer investment advisory relationships.) Please provide the data as of December 31 for all years.

	2009	2010	2011	2012	2013
Number of Clients	55	62	88	94	124
Assets under Advisement	$2.3 billion	$4.7 Billion	$6.2 billion	$7.1 billion	$13.1 billion

8) For each calendar year beginning in 2009, provide the name and dollar amount of assets of all full-service retainer investment advisory clients that terminated their relationship with the firm. Provide the reason for each termination. Have there been any client terminations to date in 2014? If yes, please provide the information for those terminations as well.

There have been no client terminations in 2014.

2009	2010	2011	2012	2013
0	0	1	1	1
		$7 million	$140 million	$40 million
		Acquisition	Acquisition	Acquisition

9) Complete the following table by listing the number of full-service retainer investment advisory clients by category as of December 31, 2013:

	$0-$100 Million	$100-$500 Million	>$500 Million
Public Employees Retiremen (DB or hybrid)	0	0	0
Public Employees Retiremen (DC only)	0	4	0
Corporate (DB or hybrid)	9	0	1
Corporate (DC only)	51 plan sponsor clients	16 plan sponsor clients	6 plan sponsor clients
Endowment	12	0	0
Union/Taft-Hartley (DB hybrid)	0	0	0
Other	16	9	0
TOTAL	88	29	7

10) Provide as **Exhibit 10** a list of the firm's clients that are included in the table that is contained above. For each client, provide the type of client (as to public clients, distinguish government from university relationships, nonpublic tax exempt entities, corporate, etc.), the approximate size of the relationship (market value of assets), and the number of years the firm has provided such services to the client.

(See Exhibit #10).

11) Provide references for three (3) current defined contribution public pension fund clients each of which has utilized the firm's investment advisory services for at least five (5) years. Include the name of the retirement plan contact person and telephone number. Provide the same information for up to three (3) former defined contribution public pension plan clients that terminated the firm in the last five (5) years.

Jennifer Sandusky, Plan Administrator Iowa Department of Admin. Services Office: (515) 281-0569 FAX: (515) 281-5102 jennifer.sandusky@iowa.gov	Lisa A. Underhill Senior Benefits Analyst Benefits Division Hennepin County Human Resources Phone: 612/543-1122 Fax: 612/348-9638 Lisa.Underhill@hennepin.us	John Hanrahan Iowa State Education Association Associate Executive Director 777 Third Street Des Moines, IA 50309 Phone: 515-471-8015 Jhanrahan@isea.org

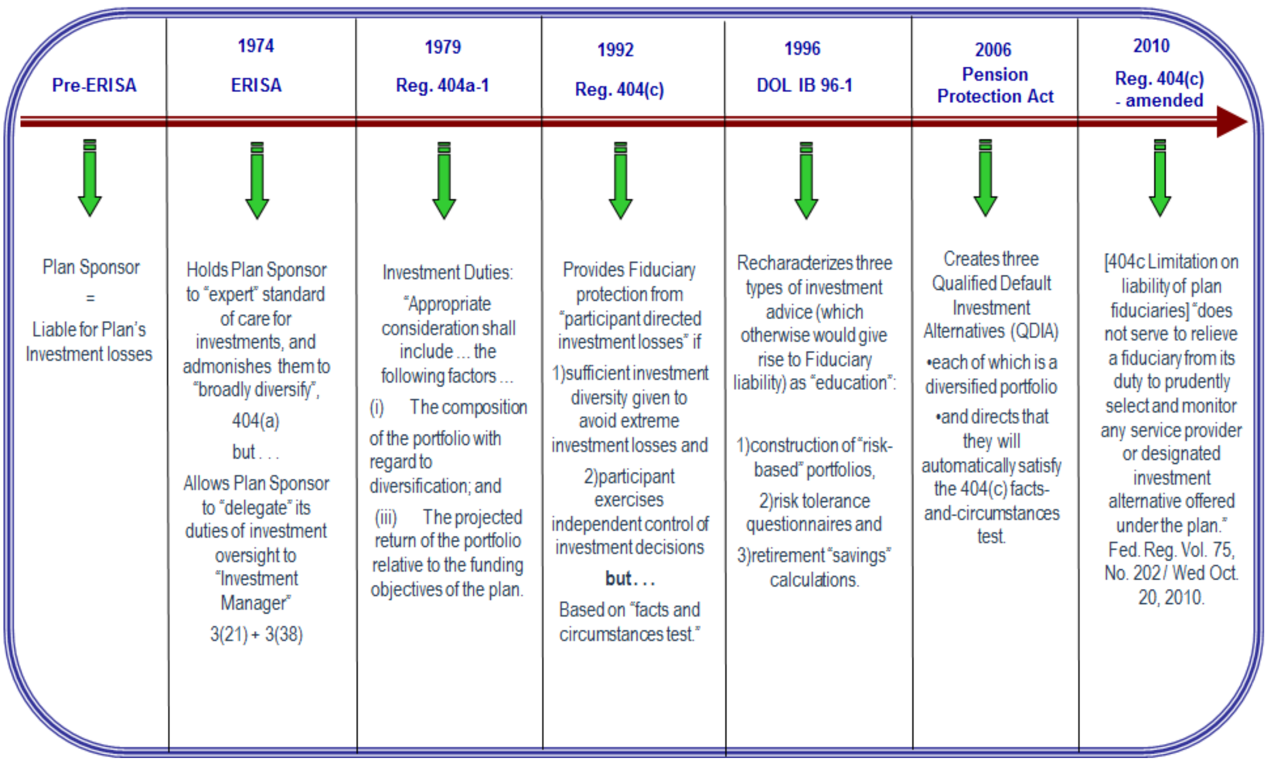
Philosophy & Processes

1) Describe the firm's philosophy as it pertains to investment advice. What role does the firm see itself playing for a defined contribution retirement plan client such as WSU? What does it consider to be the firm's advisory specialties, strengths, and limitations?

Our strength – and what makes us different – is that the reason we founded our firm was that we felt that simply providing participants with a diversified fund lineup (that they could then mix and match) was not enough and that we should encourage our clients and prospects to avail themselves of the fiduciary safeharbors that ERISA's regulations provided. And if you step back and look at an overview of those safeharbors, we think that you will see – as we do – a consistent evolution of providing fiduciary safeharbor to professionally managed asset allocation portfolios.

Part 1: Fiduciary Safeharbor Evolution – Investments

1) Asset Allocation Portfolios that are
2) Professionally Managed



2) Does the firm have common beliefs about the investment markets which underpin the firm's investment advice across all clients? If yes, please describe them.

ACG approaches each client relationship with no preconceptions. In other words, no assumptions are made as to what the proper investment design is initially or the appropriateness of the individual funds currently in the plan. Ideally, and prior to offering any advice, your Investment Consultant will want to learn your own investment philosophy, the thinking behind the current plan design and the direction the plan would like to take in the future. ACG's experience has shown that inertia is a powerful force in retirement plans and the impact of the initial work related to asset class selection, fund selection and portfolio development is critical to the long-term success of a retirement plan and its participants.

Another distinguishing characteristic is ACG's approach to helping plan participants and their beneficiaries. Defined contribution plans that allow for participant investment direction have effectively made each participant a pension manager - whether they want to be or not and whether they have the expertise or not. This perspective can change how a Committee approaches a plan's investments. ACG has grown, in large part, because of its success in translating the decisions made with the fiduciaries on the Investment Committee into participant communications and education that are easy to understand and, more importantly, actionable.

ACG believes that a successful plan offers something for all participants. There is ample debate in the investment community about the merits of active versus passive management and an argument can be made to support either strategy. We believe it is prudent for a plan sponsor to offer a suite of both active and passive investment alternatives across a range of asset classes that will allow a participant to build a diversified portfolio to best match their risk tolerance and meet their performance and cost expectations. ERISA's mandate is that investment management fees must be reasonable, not always the lowest, and we believe a prudent combination of both active and passive investment options help fulfill this responsibility.

3) In the firm's view, how should a client measure its investment advisory firm's "performance"? Please explain.

Performance of the investment advisory firm should be evaluated based on the quality of the service provided and the quality of the product delivered.

The factors ACG expects to be considered when reviewing the service provided include but are not limited to the following:

1. **Responsiveness** - Has the ACG team been available when needed, have deadlines been met? Has the team addressed our requests with thoughtful and knowledgeable responses?
2. **Communication** - Has the team been proactive, timely and concise in communicating results, ideas, and potential issues?
3. **Collaboration**-Does the team listen to our needs, concerns and ideas? Does the team feel like a part of our team in the effort to provide the best opportunity for participants to save efficiently and effectively for retirement?
4. **Ethics**-Has the team performed in a consistently ethical and respectful manner?

The performance criteria for the product delivered include short term and longer term measurements. The following list consists of several factors to consider when evaluating the product delivered:

1. **Advice**-Have the recommendations been customized to our needs (rather than being the same recommendations made to all clients), have the recommendations been creative, thoughtful and knowledgeable?
2. **Accuracy**-Have the quarterly reports, ad hoc research and analysis, educational materials been accurate and have they been consistent with what was expected and did they addressed the questions asked?
3. **Implementation**-Have the parameters identified in the Investment Policy Statement been considered in all recommendations, additions, and changes to the plans?
4. **Value**-Is the information provided useful and helpful in working with plan participants, investment committee members? Is it timely enough to address concerns committee members and/or participants may have due to volatile markets or headline news?

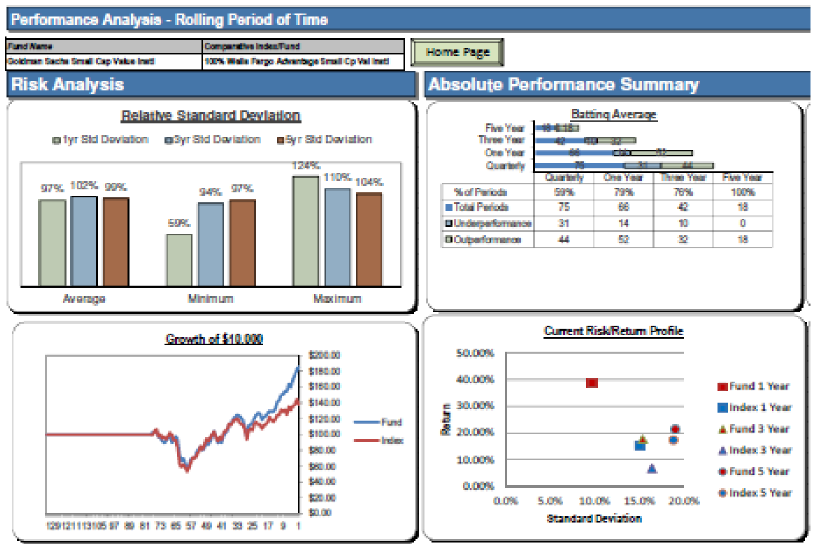
5. **Quality**-Are plan costs reasonable? Is manager turnover in the plan low i.e. has ACG been successful in identifying quality managers? Are the managers consistent in style?
6. **Performance** – Model Portfolios provide an excellent way to judge investment expertise. Again, the starting point is 404c's directive to provide participants with at least 3 sufficiently diverse investment options that when combined will ordinarily reduce the risk of large losses. So, the relevant questions should be: 1) did the addition of a fund offering either increase the portfolio's return, decrease the risk or both and 2) did the overall performance (risk/return) of the Model Portfolio outperform the risk/return metrics of the portfolio constructed from the three (3) 404c investments using the same weights to equity and fixed income? Frankly, there will be times when the broader diversification does not outperform (risk/return) of the original three. But measured in their whole and over a reasonable period of time, they should – or why go through the exercise?

4) Describe the firm's recommended mutual fund search process for large public retirement plan clients. What key criteria does the firm believe should be emphasized in a search?

As discussed earlier, ACG's investment menu selection process is based on MPT. (Please refer to question 6 in this Philosophy & Process section for a detailed explanation of the investment menu selection process.) Once the menu is established, ACG uses an investment manager selection process based on both quantitative and qualitative evaluation. ACG has a team of five (5) investment professionals dedicated to the research of our core mutual fund lineups. Those analysts each have more than 10 years of experience evaluating retirement plan investments. Each analyst has been assigned research responsibility for a specific set of asset classes.

The key criteria in the quantitative evaluation include performance relative to the benchmark and peer group, risk adjusted performance, style consistency, beta, standard deviation, and up down market capture. Preliminary screens are used to identify ideas, and further evaluation is used to narrow the list of candidates. In addition, managers we already know well and meet our criteria will be included as candidates. The ability to identify managers who can produce competitive returns in up-markets is important, but we believe managers who have produced competitive returns with consistent levels of outperformance in down-markets will add more value over time. **(See Exhibit #19).**

The tool that differentiates our quantitative analysis is our proprietary Rolling Periods of Time (RPT) software system. Prior to starting our firm in 1998, our CEO (Charles Langowski) developed a program that would augment traditional point-in-time (e.g. 1, 3, 5 yr – etc.) analysis with his side-by-side RPT analysis. We utilize this proactively in our investment process not only in the initial selection but also in the ongoing monitoring of managers. This tool allows us to gauge a manager's consistency of performance over several unique time-periods. For example, a manager with a four year performance history will have only one 3-year performance period to analyze. The RPT tool allows us to construct thirteen 3-year periods of time within those four years to analyze the manager's risk and return characteristics, and consistency over those periods. This analysis is important to evaluating the manager's ability to deliver value. As illustrated below, RPT allows us to set two funds (or a fund + an index) side by side and compare quantitative factors over multiple rolling periods of time. **(See Exhibit #20).**



The focus of the qualitative evaluation begins with a review of the portfolio manager's tenure, the experience of the other team members, philosophy, and the portfolio construction process. We want to understand how this manager adds value and manages risk. We consider the expense ratio, and determine if the fund has the capacity to manage the account. Finally, we consider any special circumstances required by the client. We have access to management teams because of our clients and the amount of their assets. These conversations allow us to confirm the results of our research and can provide great insight into the manager's processes, and performance. When those conversations are in the context of a manager who is on our watch list, summaries are made of those conversations **(See Exhibit #21).**

5) Describe how the firm monitors the mutual funds that a client offers to participants in its retirement plan. Other than investment returns, what key criteria does the firm consider in the review of a mutual fund's performance? What is the appropriate time period for evaluating a mutual fund's performance? At what point would the firm recommend removing a mutual fund from the available retirement plan investment options?

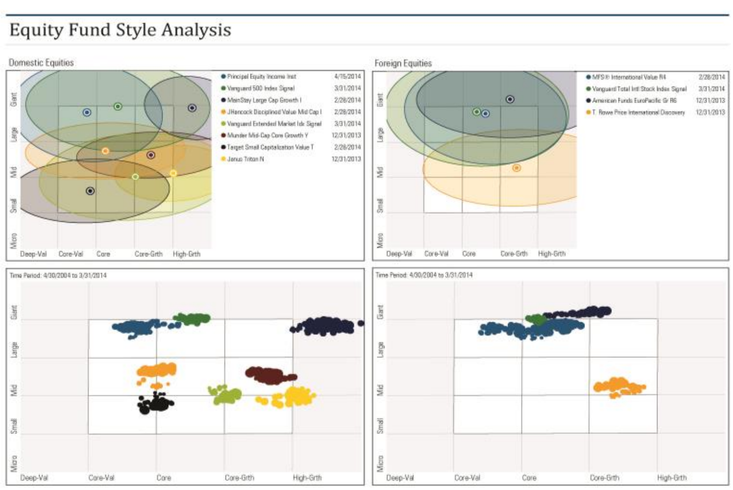
As mentioned earlier, the five investment professionals responsible for investment manager searches are also responsible for ongoing manager due diligence. On a quarterly basis we meet with our clients to review the performance of their plan. In that meeting our clients receive our internally-generated quarterly fiduciary review booklet that outlines quantitative basic economic issues, individual investment performance and a summary indicating if the funds are meeting their investment policy statement criteria. Quantitative data includes our proprietary factor analysis that details the primary performance drivers for the prior quarter. We will also include an overview of the plan historical asset allocation and an estimate of the revenue that may have been received by the trust from the funds in the core fund lineup. The quarterly report is also posted to a password protected client web portal allowing for committee members to access the reports remotely if necessary.

In general, our quarterly due diligence is focused on performance, style and organization. We acquire our investment manager data from Morningstar Direct, Zephyr, and Steele Systems. We also have direct contact and interviews with fund personnel and managers. We also utilize Bloomberg for real time fund and industry news related to the managers and management firms used within our clients' qualified plans. This news is delivered real-time to our investment consultants and research analysts for further consideration.

Detailed performance information is reviewed for each fund relative to the appropriate benchmark and peer group as stated in the Investment Policy. This information includes, but is not limited to:

- Cumulative (e.g. quarter to date, one-year, three-year, etc.)
- 3 year rolling performance relative to peer group and benchmark
- Calendar year and rolling period results
- Peer group ranking trend analysis over the previous four quarters
- Top 10 holdings
- Sector exposure
- Country exposure
- Market cap exposure
- Manager style analysis (holdings and return based)
- Risk statistics relative to returns (Beta, Alpha, standard deviation, downside deviation, Sharpe ratio, Information ratio, Sortino ratio)
- Up market and down market capture

Evaluation of an investment manager's investment style initially and on-going is also critical to the long-term success of the plan. Our philosophy is that if an investment manager was hired to manage assets in a specific asset class, such as Mid Cap Value, that manager should maintain that consistency on an on-going basis. For this step of the process, we utilize both returns-based and holdings-based style analysis. By joining these two methods, we are best suited to confirm the manager's strategy and more importantly identify any style "deviations" that may be developing. That analysis is embedded into each of our "full" quarterly reports. **(See Exhibit #22).**



Through the quarterly investment review process funds are monitored on a consistent basis and if a fund fails the criteria set forth in the investment policy statement that fund will placed on watch list. If, through the course of our review a fund is to be considered for replacement, a detailed watch list report will be prepared that presents specific options and a recommendation regarding the fund we feel would be the best replacement. In general, our procedure is to monitor a fund for three full quarters after first being put on watch and if no improvement is made, we may recommend a replacement. Of course, there are certain dramatic events (ex. fund manager change, unusual market conditions, style drift) that can either expedite or moderate this procedure. Also, the research department develops a "factor report" each quarter that is used to evaluate if a manager's under performance may be due to a market environment that does not favor that manager's style. If it is ultimately determined that the fund will be replaced, your account manager will work with the plan's record keeper to prepare for that change.

The criteria applied in the search are the same as those applied in the initial fund selection process. If there is an urgent issue with a fund mid-quarter, we will send a communication to you outlining the issue and our recommended strategy. If follow up is needed, a meeting or conference calls would be scheduled. Our process emphasizes the communication of vital information to the retirement committee so that members have a true understanding of the performance of the investments within the plan.

6) Describe the firm's recommended process for analyzing the range of retirement plan mutual fund offerings. What influence does a retirement plan's current range of mutual fund offerings have on the addition of new offerings?

This is your RFP's toughest – but good/welcome – question because it invites us to share with you our "recommended process" for "analyzing the range of [your] retirement plan mutual fund offerings." But before giving you our answer, please let us stress that we would welcome the opportunity to work with you – even within the framework of what you have already established.

The starting point is that your introduction to this RFP states, in part:

> "WSU currently contracts with two (2) investment providers that offer over 400 investment choices collectively for the Retirement Plans. The Retirement Plans include mutual funds and annuity contract portfolios as investment options."

So, our "recommended process for analyzing the range of retirement plan mutual fund offerings" is to analyze them BOTH with respect to their own stand alone return/risk metrics AND in combination with the other diverse investment options offered by the plan. In other words, we would advise you to evaluate them just the way you would if you were sponsoring a defined benefit pension plan. The point is the investment goals of both types of plans are EXACTLY the same – the only difference is who is making the investment decisions and suffers the consequences of investment losses.

Unfortunately, the long answer requires a deep-dive into ERISA.

Hopefully, it is axiomatic by now that ERISA 29 CFR 2550.404c is the portal through which all hope of insulating a Plan Sponsor for participant-directed investment-losses in an ERISA defined-contribution plan must pass. But, 404c itself was a Regulation – which in turn was interpreting the actual ERISA Statute Title I §404(C) "Fiduciary Duty" to "diversif[y] the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

The optional "safe harbor" 404c offers to Plan Sponsors from liability for participant-directed investment losses was predicated on the provision of at least three (3) broadly diverse investment choices the combination of which would minimize the risk of large losses:

(3)(i) A plan offers a broad range of investment alternatives only if the available investment alternatives are sufficient to provide the participant or beneficiary with a reasonable opportunity to:

- (A) Materially affect the potential return on amounts in his individual account with respect to which he is permitted to exercise control and the degree of risk to which such amounts are subject;
- (B) Choose from at least three investment alternatives:
  - (1) Each of which is diversified;
  - (2) Each of which has materially different risk and return characteristics;
  - (3) Which in the aggregate enable the participant or beneficiary by choosing among them to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the participant or beneficiary; and
  - (4) Each of which when combined with investments in the other alternatives tends to minimize through diversification the overall risk of a participant's or beneficiary's portfolio;
- (C) Diversify the investment of that portion of his individual account with respect to which he is permitted to exercise control so as to minimize the risk of large losses, taking into account the nature of the plan and the size of participants' or beneficiaries' accounts.

Admittedly, availing the safe-harbor protection of Regulation 404c is "optional." But few, if any, plan sponsors of ERISA defined contribution plans today purposefully set about to "not" comply with 404c.

So, our guidance and advice is that "additional" investment alternatives should only be added if, "each [] when combined with investments in the other alternatives tends to minimize through diversification the overall risk of a participant's or beneficiary's portfolio."

While 404c directed Plan Sponsors who wanted to avail themselves of the investment-loss liability safe harbor to provide participants with a "broad range" of investment options the combination of which would minimize, through diversification, the risk of large losses – it gave no guidance as to how those individual investments ought to actually be combined as a portfolio. The problem was: telling a participant how to combine those investments into an efficient portfolio sounded a lot like "advice" which if combined with a "fee" might be construed as a Fiduciary function – with attendant fiduciary liability.

To solve the problem of having saddled participants with being their own pension managers without giving them the tools to do so, the Department of Labor issued in 1996 Interpretive Bulletin 96-1. In 96-1, the DOL made explicitly clear that four (4) specific gray-areas would be provided with safe harbor from fiduciary liability by being designated as "Investment Education" (rather than advice): 1) Plan Information, 2) General Financial and Investment Information, 3) Asset Allocation Models and 4) Interactive Investment Materials. And, further, that safe harbor would not hinge on how that information was delivered: "e.g. on an individual or group basis, in writing or orally, or via video or computer software, or whether an identified category of information and materials is furnished alone or in combination with other identified categories of information and materials." (The perceived need for, and value of, professionally constructed investment portfolios, can be seen again when the Pension Protection Act gave fiduciary safe harbor protection to Qualified Default Investment Alternatives.)

But, we would submit that the use of Model Portfolios serves a parallel purpose of being a yardstick by which Plan Sponsors can evaluate the "value" of the investment advice they are getting from their consultant. If 404c's three basic asset classes (cash + bonds + stocks) are used as the plan's benchmark

– then the plan sponsor has a frame of reference to answer the question: did it make sense to add that small cap growth international fund?

Since the issuance of 96-1, "Managed Accounts" (E.g. individual-advice products) have become a popular "add-on" to plans. But, we've never understood their value. First of all, there's an added cost to the participant. And being part of the "plan," the plan sponsor must ensure that those costs are "reasonable." Well, how can you make that assessment if you don't know what the performance is? In other words, Model Portfolios are simple and elegant because they come at no additional cost to the participant and because the Plan Sponsor can monitor their performance (e.g. return on investment) on a quarterly basis.

To complete our answer to your question – we're not suggesting that some participants might not benefit from a menu of investment options beyond those used in a Model Portfolio. And because we believe that a plan should strive to have something for everyone, we're advocates of self-directed brokerage-windows (appreciating the investment limitations imposed on 403b plans). We also know full well that 404c is about "independent/informed" decision making – so the array of funds we use to build our Model Portfolios are always available to participants as individual options. Finally, we think the esoteric argument about active vs passive is distracting – so we advocate a diverse lineup of both. And, what does that add up to in terms of numbers of investment options? The answer is generally right around twenty (20) individual investment options and five (5) Model Portfolios (plus a self directed brokerage option).

One last comment. With the issuance of Reg. 404a-5, the DOL revisited the "independent + informed" aspect of Reg. 404c. In the Appendix to Reg. 404a-5, the DOL created a template of information that needed to be re-presented to plan participants/beneficiaries on an annual basis for each "designated investment alternative" which it described as follows:

> ***(h)(4) Designated investment alternative*** means any investment alternative designated by the plan into which participants and beneficiaries may direct the investment of assets held in, or contributed to, their individual accounts. *The term "designated investment alternative" shall not include "brokerage windows," "self-directed brokerage accounts," or similar plan arrangements that enable participants and beneficiaries to select investments beyond those designated by the plan.* (Emphasis added)

Unlike 404c, 404a-5 is not "optional." And, 404a-5 also added the express requirement – for the first time - that the plan's investment offerings must be "monitored":

> **(f)** ***Selection and monitoring.*** Nothing herein is intended to relieve a fiduciary from its duty to prudently select and monitor providers of services to the plan or designated investment alternatives offered under the plan.

(Simultaneously, 404c was amended to read, 404c "does not serve to relieve a fiduciary from its duty to prudently select and monitor any service provider or designated investment alternative offered under the plan.")

And here is the rhetorical question we would ask you about your present fund offering: if each of those is deemed to be a "designated investment alternative," does annual inundation with expense detail and fund fact sheets on almost 200 offerings promote the goal of independent and informed decision making?

Finally, both TIAA-CREF and Fidelity can provide recordkeeping service for customized Model Portfolios. So if you wanted to, you could revisit your basic orientation. But, we are FULLY aware of the participant education hurdles which such a wholesale transition would make. So, to return to your question: we would be happy to help you "analyze" your broad array of fund offerings – but against the backdrop that we believe too many options are not in the participants' best interest.

Against that backdrop, we would advise you to limit your plans' designated investment alternatives to those that efficiently work together as a Model Portfolio – but ALSO make available to plan participants an entire universe of options through a self-directed brokerage window.

7) Explain the firm's views regarding how WSU can help Retirement Plan participants to manage risk through the Plan mutual fund offerings.

As we have now stated repeatedly, we believe the answer to this question is "customized" and "automatically rebalanced" Model Portfolios (risk and/or age based) – coupled with ALWAYS allowing participants to do-their-own-thing.

8) Discuss the theory and methodology of the asset allocation models the firm employs to advise a client regarding the appropriate range of retirement plan mutual fund offerings. Are there any professionals dedicated specifically to this function? Describe the firm's methodology for establishing asset class risk and return assumptions. How frequently does the firm review its capital markets expectations?

Hopefully, we have adequately explained that (and why) we use Modern Portfolio Theory (and 404c/96-1) as the basis of our asset allocation models, stressed that because it is at the heart of our value-added proposition our entire staff is dedicated to its function, and described our methodology for establishing asset class risk and return assumptions.

With regard to the final part of your question, we review our capital markets expectations annually. ACG's capital markets assumptions are developed internally using a variety of inputs. Our capital markets assumptions are our long term expectations for asset class returns, volatility and correlation, covering a full market cycle, not just the next year or two. In building our expectations we first examine major economic factors, such as GDP growth and inflation expectations, that we believe will likely affect the returns to major asset classes. We obtain historical data on these factors, as well as forecasts for their future path, from the Federal Reserve System and the Bureau of Economic Analysis. These become inputs into our forecast for corporate earnings growth, credit spreads and commodity performance.

Equity metrics, fixed income yields, credit spreads, and alternative asset class valuation metrics are developed in ACG's Investment Committee meetings, using data from the Federal Reserve, Bloomberg, Ibbotson, Morningstar and other external sources. Our preliminary expectations are then compared to both long term historical averages and implied market expectations, and any significant differences are discussed and analyzed in the Investment Committee.

For volatility we forecast equity volatility to remain near historical norms. Longer maturity Fixed Income securities will likely have bouts of heightened volatility as the Fed begins to pull back from quantitative easing and eventually starts raising short term rates. Given investors' continued hunt for yield we do not forecast a rapid rise in rates from here, especially in the short end of the curve. With low default rates and lots of cash on corporate balance sheets, we also believe that credit spreads will remain somewhat tight across the ratings spectrum.

As shown on the chart on the next page, our capital markets expectations for returns assigned to most asset classes are below their 10 year historical average, primarily based on above average valuations, low current yields and below trend GDP growth for the foreseeable future. Offsetting these below average nominal returns is an inflation rate that we forecast to be below trend as well, helping real returns to be closer to historical averages. With respect to the chart below, we release our projections at year-end, e.g. 12/31/2013.

ACG Capital Market Expectations			2014	
FIXED INCOME	**Historical**	**YTD 2013**	**Forecast**	**Notes**
Treasury Bills/Cash	1.7%	0.0%	2.00%	Short term rates begin rising in 2015
Government Bonds	4.7%	-2.0%	3.50%	Current Yield of 2.8% on Treasury eventually rising to 4%
Corporate Bonds	6.3%	-2.6%	4.75%	Credit Spreads widen slightly but stay tight
High Yield Bonds	10.6%	3.7%	6.00%	Credit Spreads widen slightly but stay tight, shorter duration leads to less interest rate risk than Treasuries
Core Bond	5.2%	-1.9%	4.00%	Composite of underlying asset returns
Bank Loan	4.4%	1.8%	5.50%	Floating Rates benefit from rise in yields
Foreign Bonds	5.0%	-3.5%	4.00%	
Emerging Market Bonds	11.6%	-5.2%	6.00%	
Munis	5.5%	-2.1%	3.75%	Yields eventually fall below Treasuries again, mitigating price reduction due to increasing interest rates
TIPS	6.7%	-6.7%	3.25%	Inflation estimated to be slightly below breakeven rate, causing TIPS to underperform nominal Treasuries
ECONOMIC	**Historical**	**YTD 2013**	**Forecast**	**Notes**
Inflation	3.0%	1.5%	2.25%	CPI eventually returns to Fed's Target of 2% (or slightly more)
Real GDP Growth	3.0%	2.0%	2.50%	
Nominal GDP Growth	6.0%	3.5%	4.75%	
EQUITY	**Historical**	**YTD 2013**	**Forecast**	**Notes**
Dividend Yield	2.5%	2.1%	2.50%	Dividend yields + share buybacks rise to historical averages
P/E Growth	0.0%	15.0%	-0.50%	P/E's fall slightly after significant run up in equity prices
EPS Growth	6.0%	3.5%	4.00%	Below nominal GDP growth as margins shrink from peak
Large Cap Stocks	7.1%	20.0%	6.00%	Div Yield + P/E Growth + EPS Growth
Mid/Small Cap Stocks	9.7%	28.0%	7.00%	
International Stocks	8.7%	17.0%	7.00%	Starting valuation lower than U.S. allow for more price appreciation
International Smallcap	11.5%	14.9%	8.00%	
Emerging Market Stocks	14.0%	1.0%	9.00%	Starting valuation lower than U.S. allow for more price appreciation
Global Equity	9.0%	16.9%	7.50%	
ALTERNATIVE	**Historical**	**YTD 2013**	**Forecast**	**Notes**
REITs	11.2%	3.0%	6.50%	Equity like returns with a higher dividend yield (4% vs. 2.5%)
Commodities	4.1%	-9.0%	4.75%	Returns roughly equal nominal GDP growth
All Asset	6.8%	0.3%	6.00%	
Private Equity	10.4%	N/A	9.00%	
Mezzanine Debt	10.1%	11.0%	9.00%	
Hedge Funds	8.2%	5.3%	6.00%	

9) Describe the firm's recommended process for assisting clients with policy guideline development and review. What specifically would the firm do to develop or review the policies of WSU? How frequently would this process occur? What client-specific factors would be considered? How would WSU be involved in the process?

At the outset, it is important to note that we do not act as a fiduciary in the formation or maintenance of an Investment Committee. Nor do we serve as a member of investment committees. To some extent, that would create, we believe, (at a minimum) the appearance of a conflict of interest. That said, we are happy to share our experiences with other Investment Committees.

Where we begin is that we point out to our clients that using case-law as a guide, courts generally have looked to see whether appropriate plan documents are in place and being followed – but then give "broad discretion" as to the unique internal processes used by the requisite administrators. (Jumping the gun a bit, that means that we encourage our clients to "not" make their Investment Policy Statements "too" rigid.).

With that as the backdrop, we recommend to our clients that Investment Committees should be established, empowered, and staffed by those with the requisite institutional authority – and that some document (ex: the IPS) reflect those authorizations. Some companies adopt a formal stand-alone / separate "Investment Committee Charter" while others incorporate some sort of an empowerment clause into the actual IPS.

With respect to "who should serve on an Investment Committee", we think a good place to start is to observe that Investment Committee members may well be (and often are) fiduciaries. (In ERISA's terms, anyone who exercises, or has the authority to exercise, discretionary authority over the plan assets or the administration of such plan is a fiduciary. See ERISA Title I §3(21)). So, we think it's a good practice to explain to would-be members the potential liability that comes with committee membership (and to confirm that they will be identified as such with the client's fiduciary insurance carrier).

Related, we also think it's valuable – even though this observation is, arguably, better placed in the next bullet point – to lay out for would-be committee members the "general" investment duties of a fiduciary. (See ERISA Title I §404(a)(1)). In practical terms, what we would generally observe about Investment Committee development is that a lot of attention is given to educating the Committee at inception – but often very little attention is given to creating a self-explanatory document that can easily be passed to a next-generation member with respect to her/his duties and potential liabilities.

We will either help you review your own, or we will help you draft one using our template. ACG believes the establishment of well a formulated Investment Policy Statement is a fundamental requirement toward your primary objective of managing your investment related responsibilities and offering best of class investment alternatives to participants. A policy statement lays the foundation for the decision making process and outlines how the retirement committee will monitor the plan's investment options by including the following:

- Empowerment of the Committee
- Roles and responsibilities of the governing committee;
- Description of the various types of investment funds included in the plan;
- Performance guidelines for the plans' investment options relative to market benchmarks and peer groups;

- Reasons for terminating (or replacing) investment options and the process for identifying replacement funds; and
- Frequency of committee meetings to review the plans' investment performance and key metrics, such as asset allocation and expenses.

A comprehensive Investment Policy Statement serves to not only direct your investment activities, but also to document your objectives, implementation strategies, and methodologies to monitor and measure performance; thereby demonstrating a process for executing your fiduciary responsibilities.

10) Describe the firm's capabilities in providing performance measurement at the mutual fund, asset class and total fund level. Is the firm's database(s) proprietary or purchased? How is data input and verified? How would WSU access its performance information?

ACG has the capability to produce performance reports on the plan level and, in the case where the custodian can deliver electronic files that contain position, price and transaction level information, performance information can be delivered for individual holdings. All of ACG's quarterly reports are produced internally using Morningstar Direct which provides daily updating of mutual fund and separate account manager return information. eVestment is also utilized in facets of our client reporting process, specifically as it relates to fund research, watch list or fund replacement reports.

On a portfolio level, Morningstar Direct and can be utilized to calculate portfolio returns and create descriptive portfolio information. Morningstar Direct is utilized where either risk-based or age-based model portfolios are built and made available to plan participants. When a portfolio is created, the portfolio allocation is entered into Morningstar Direct along with the appropriate rebalancing frequency. When a portfolio changes due to an allocation or fund change, those changes are reflected in Morningstar Direct the next trading day. This allows ACG to track a model portfolio's risk and return statistics to the closest trading date without introducing survivorship bias in the performance calculations. **(See Exhibit #23).**

11) Describe how benchmarks are chosen or developed and how performance is compared to other mutual fund options. Describe the database(s) the firm uses for peer universe comparisons.

We typically recommend appropriate benchmarks for each underlying investment based on a fund's objective, historical style, and/or return characteristics. Total portfolio level benchmarking is comprised of a weighted average blended of the underlying investments. In regard to peer universe benchmarking, we use Morningstar as a database. Typically, we adopt the peer universe as defined by Morningstar, but there are circumstances in which we re-assign a peer group to better align with an investment's objectives, style and/or return characteristics.

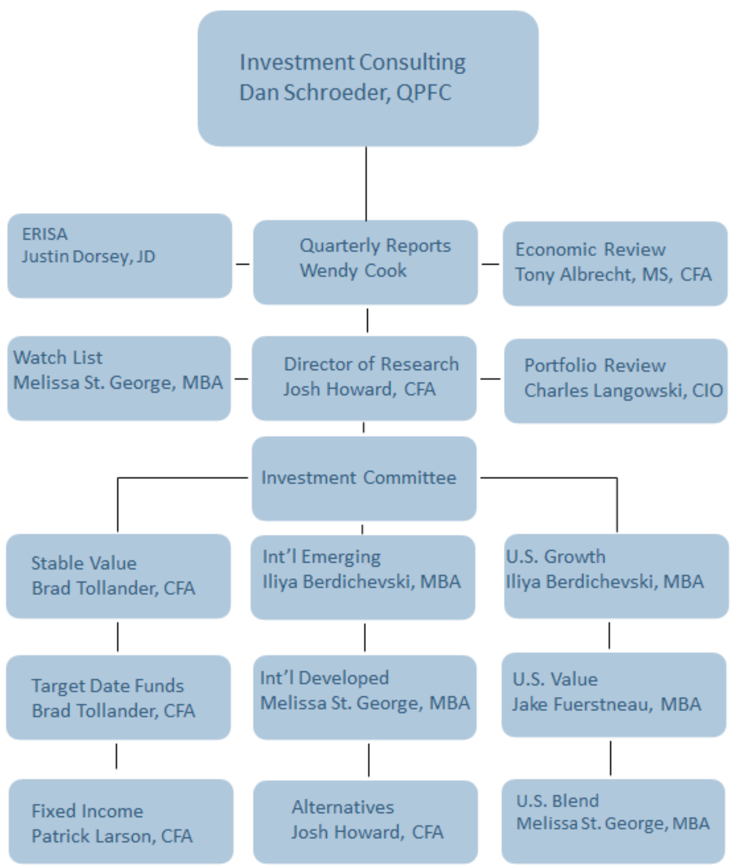
12) Describe the firm's recommended process for providing investment and fiduciary education to the Board, the VPFBO and the Investment Committee.

To be brief (and consistent with our answers to your other questions that touch on this subject) we acknowledge in writing that we are an "investment" fiduciary because we give investment advice for a fee. That means, in part, that we give "investment advice to plan fiduciaries."

Research & Technology

1) If no separate department exists, describe how this function is performed.

ACG has a dedicated qualified plan investment research group that works closely with the investment consultants and day-to-day relationship managers in the delivery of ACG's core advisory services. The team is comprised of five (5) investment analysts who cover the broad universe of asset classes available to qualified plans, led by our Director of Research, Josh Howard. The asset classes followed range from stable value to private equity and each analyst is responsible for applying ACG's initial fund screening process to funds of interest in their respective asset class assignments. In addition, they are charged with following ACG's ongoing monitoring criteria and the plan's investment policy statement to make sure your selected funds are performing as expected. Finally, the analysts are actively involved in ACG's monthly investment Committee meetings where new and current funds are discussed and, if necessary, identified for deeper research and analysis.

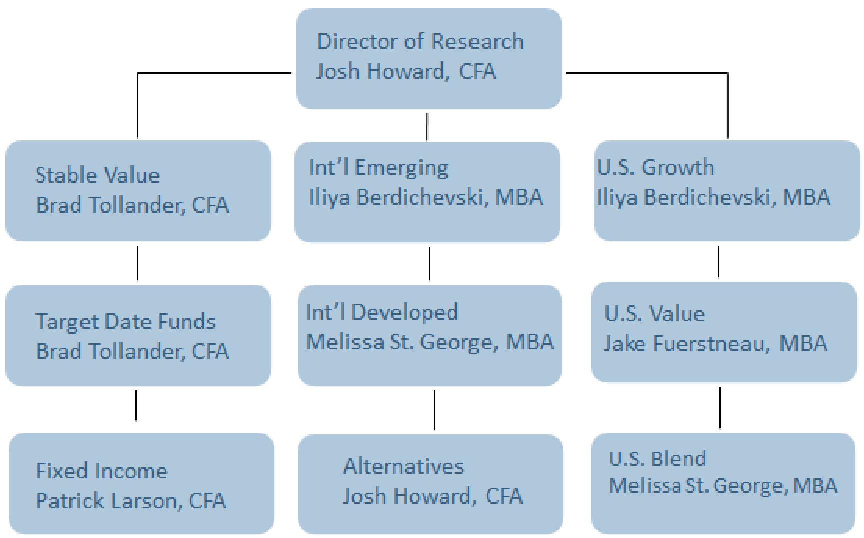


2) Does the firm develop investment research reports for its clients? If yes, on what types of investment topics? Who performs the research? How frequently are reports issued? What "annual" research reports does the firm produce for clients? What sources of information are used to collect data?

We do provide investment research for clients, both in response to ad hoc requests and proactively based on market changes or events. We update our clients on leadership changes at fund companies (such as the recent events at PIMCO, and TIAA-Cref's acquisition of Nuveen) and produce reports analyzing asset classes or economic data releases. For example, we have produced pieces on managing fixed income to and through quantitative easing, and on emerging market equities. Reports are issued on an as needed basis, except for our capital market expectations report, which is released annually in January. Source data comes from Morningstar Direct, Bloomberg, the Federal Reserve and other data providers, depending on the topic. **(See Exhibit #24).**

3) Describe how the firm conducts research on mutual fund companies and their products. How many research analysts are dedicated to this function? How often will a representative of the firm's research group typically perform an on-site visit to a mutual fund company? How are product classifications arrived at? Does the firm maintain a "buy list" of mutual funds for specific product classifications?

ACG conducts all of it investment manager due diligence internally. ACG has five (5) investment analysts dedicated to manager research and each of them has defined asset class responsibilities. Their research is reviewed by the firm's internal investment Committee on a monthly basis and is used to formulate client recommendations.



The ACG team of analysts continually meets, or speaks, with fund representatives or management of the investments we are considering or monitor. It is not uncommon for representatives of asset management firms to either visit our offices or have our analysts visit them at theirs. In addition, analysts will frequently attend industry conferences to listen to various management firms discuss their style, approach and products.

Product classifications are a combination of the default classification provided by Morningstar and the classification the fund manager provides. In addition, ACG utilizes both returns-based and holding-based style analysis tools to monitor a manager's stated style versus reality. These tools are standard in our review materials and provided to our clients on a quarterly basis. In addition we also evaluate the median, average, and asset weighted market caps of a fund. Market caps are compared to both the index and peer group managers to determine whether a fund is staying true to its market cap expectations. If we suspect a manager has been moving up or down their market cap spectrum, we will evaluate the fund's market cap history to help us gain further insight.

ACG does not use a short-list of funds from which it makes recommendations, but uses the minimum qualification standards articulated in the investment policy statement for guidance. In the case of either a new client implementation or fund replacement search the analysts will begin with the complete universe of funds available to them in an asset class and use preference screens to filter the funds using criteria stated in the investment policy statement. If a manager passes those initial screens, and shows added value after point specific and rolling periods of time results are considered, that manager will be subjected to further research and analysis before being recommended. It is natural to have our process gravitate toward a certain type of management strategy or asset manager but that is not intentional, it is driven by the work we do with the client in the formulation of their policy statement.

4) Does the firm maintain a mutual fund research database? Is the database proprietary or purchased? If the firm has an in-house database, is it sold to third parties? How does the firm receive compensation for selling it? Describe any advantages that the firm perceives its database has over those of its competitors. How often are mutual funds in the firm's database reviewed? Under what circumstances are mutual funds added to or deleted from the firm's database? Describe how the firm gathers, verifies, updates, and maintains the data collected on mutual funds for the database. Does the firm use surveys or meetings with mutual fund managers?

ACG does not maintain an in-house database of managers to conduct its investment manager research. We feel that our analysts' time is better spent talking with, and researching, investment managers rather than updating a database. We rely on multiple third parties like: eVestment, Zephyr and Morningstar Direct. We also utilize Bloomberg for real time fund and industry news related to the managers and management firms used in our client's retirement plans. This news is delivered real-time to our investment consultants and research analysts for further consideration. The combination of these data sources provides significant asset class coverage and information on thousands of funds, separate accounts and share classes.

5) Describe the firm's information technology capabilities and resources. How does the firm use the technology to share and leverage information resources across the organization?

We have an abundance of information technology resources and in-house expertise to handle them. As already mentioned we have Morningstar Direct, eVestment and Bloomberg for monitoring funds, performing economic research and making asset allocation decisions. We use Excel, along with VBA macros, to help produce our reports and analysis. We also make use of Matlab to perform Monte Carlo simulations and build efficient frontiers. Matlab is a better tool for us than an off-the-shelf product because we have the capability in house to write scripts and functions within Matlab, providing us more flexibility for modelling than using a third party system.

All of our analysts have access to these tools, making it easy to share information across the organization.

6) Is the firm willing and able to maintain, at the firm's expense, a satisfactory database for WSU for the purposes of compiling performance reviews and reports on behalf of WSU?

Yes. We maintain databases for many of our clients for the purposes of compiling performance reviews and reports.

Cost Proposal

1) Provide as **Exhibit 11** the firm's proposed contract that includes the annual fee that the firm would charge for providing all of the services required. The fee quoted should include all travel and other out-of-pocket expenses of the firm. Assume a one year contract term. Assume that the firm will be responsible for all monthly and quarterly performance calculations.

(See Exhibit #11)

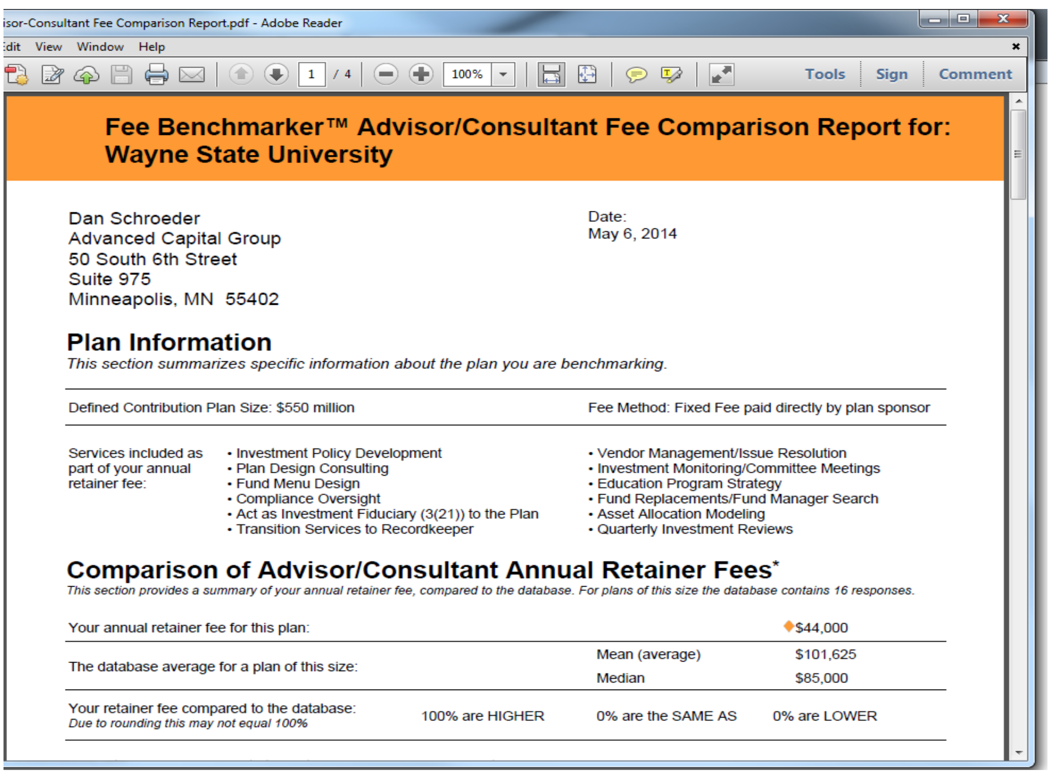
2) Indicate any additional categories of advisory work that would be considered to be "special projects" that would not be included in the annual fee quoted, and specifically define how "special projects" would be billed. (For example, if a special project will be billed at an hourly rate, then explain this and provide the hourly rate that would apply.)

In our Proposal we identified Ms. Jewelie Grape, Esq. as a lawyer with whom we are familiar and who has extensive experience working with not-for-profit retirement-plans. Missing from your RFP, was any sort of perspective about if and/or to what extent you believe your plans are or are not regulated by ERISA. Without doubt, that can be a problematic area. So, to the extent that you might decide to consult with Ms. Grape – the fee for that consultation would be additional. Generally Ms. Grape bills by the hour.

3) If WSU chose to utilize only the mutual fund companies' or other generic resources for performance measurement services, and directed that the firm use those performance numbers in its performance analysis and reports, would the firm reduce its annual fee quote? If yes, indicate the annual dollar amount of reduction.

We would (much) prefer to use our own report-writing template. We have spent hundreds of hours building it – and we are committed to constantly improving it. So, you would get an inferior product from us if we answered "yes." And we are loathe to give you an inferior product. Moreover, we are well aware that our proposed fee is very reasonable. And at some point, it's just not worth the work and out of pocket expense. So for all of those reasons, we respectfully answer: "no, we would not reduce our annual fee quote."

Re: our fee proposal, we subscribe to a third party service which collects data on Investment Advisors so as to enable Plan Sponsors to get a snap shot as to the "reasonableness" of their fees. Below is an outtake of the comparison we made of our own fee. And we are attaching a complete copy of that report. **(See Exhibit #25).**



isor-Consultant Fee Comparison Report.pdf - Adobe Reader

Fee Benchmarker™ Advisor/Consultant Fee Comparison Report for: Wayne State University

Dan Schroeder
Advanced Capital Group
50 South 6th Street
Suite 975
Minneapolis, MN 55402

Date:
May 6, 2014

Plan Information

This section summarizes specific information about the plan you are benchmarking.

Defined Contribution Plan Size: $550 million

Fee Method: Fixed Fee paid directly by plan sponsor

Services included as part of your annual retainer fee:

- Investment Policy Development
- Plan Design Consulting
- Fund Menu Design
- Compliance Oversight
- Act as Investment Fiduciary (3(21)) to the Plan
- Transition Services to Recordkeeper
- Vendor Management/Issue Resolution
- Investment Monitoring/Committee Meetings
- Education Program Strategy
- Fund Replacements/Fund Manager Search
- Asset Allocation Modeling
- Quarterly Investment Reviews

Comparison of Advisor/Consultant Annual Retainer Fees*

This section provides a summary of your annual retainer fee, compared to the database. For plans of this size the database contains 16 responses.

Your annual retainer fee for this plan:			$44,000
The database average for a plan of this size:		Mean (average)	$101,625
		Median	$85,000
Your retainer fee compared to the database: *Due to rounding this may not equal 100%*	100% are HIGHER	0% are the SAME AS	0% are LOWER

The initial term of the contract will be one (1) year and will commence approximately Fall 2014. Upon mutual agreement between WSU and the firm, the contract can be renewed for an additional one year period beginning Fall 2015.

We understand and accept this condition.