

# METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

## Request for Proposal/Search for Investment Advisor Large Cap Value Equity

### Introduction

The Metropolitan Water Reclamation District Retirement Fund (“Fund”) is requesting proposals from investment management firms interested in providing Large Cap Value equity investment management services to the Fund. The Fund was established on July 7, 1931 by the Illinois General Assembly and is governed by the Illinois Pension Code (40 ILCS 5/13-101 et. seq.) The Board of Trustees (“Board”) of the Fund is made up of seven members who manage the assets of the Fund and authorize payment of retirement, survivor and disability benefits for eligible employees of the Metropolitan Water Reclamation District of Greater Chicago. As of May 31, 2011, the market value of the Fund was \$1.114 billion. The assets are managed externally by 18 investment managers consisting of 20 different investment portfolios.

### Goal

The Board is searching for one Investment Manager to manage approximately \$50 million in a Large Cap Value equity portfolio. This Request for Proposal (RFP)/Search for Investment Advisor (SIA) is not an offer to contract but seeks the submission of proposals from qualified, professional firms that may form the basis for negotiation of an Investment Management Agreement (IMA). Amendments to the IMA are disfavored. Any objections to the IMA shall be detailed in the response. The Fund reserves the right to reject any or all proposals and to solicit additional proposals if that is determined to be in the best interests of the Fund.

*The following documents are available on the Fund’s website at [www.mwrdrf.org](http://www.mwrdrf.org): RFP/SIA, the Formal Investment Policy, the Procurement Policy for Investment Advisers and a sample IMA which includes the Broker Dealer Utilization Policy, the Ethics Policy and the Most Favored Client Policy as Exhibits.*

### Timeline

RFP/SIA Date of Issue:	June 27, 2011
Deadline to Submit Written Questions:	July 15, 2011
RFP/SIA Due Date:	July 26, 2011
Proposal Evaluation (Tentative):	August 24, 2011
Finalists Notification By (Tentative):	September 28, 2011

### Submission Process

The RFP/SIA process will be overseen by the Fund’s investment consultant, Gray & Company. The RFP/SIA is available on the Fund’s website listed above and the consultant’s website at [www.egraco.com](http://www.egraco.com). Questions concerning the RFP/SIA must be submitted via email to [research@egraco.com](mailto:research@egraco.com) by 3:00 PM Central Standard Time on July 15, 2011. Respondents must submit an electronic copy of the completed RFP/SIA to the consultant at [research@egraco.com](mailto:research@egraco.com) by 3:00 PM Central Standard Time, on July 26, 2011. Any responses after the deadline will not be considered for this search.

### Consultant Search Contact

Yolanda Waggoner-Foreman  
Gray & Company  
55 East Monroe Street  
Suite 2950  
Chicago, IL 60603  
Phone: 312-376-4729

### Scope of Services

The manager shall serve as a fiduciary to the Fund and have independent discretionary authority with respect to the management of the portfolio and subject to the agreed upon objectives and guidelines. The portfolio objectives and guidelines will be illustrated in Exhibit A of the IMA, once agreed upon by the Fund and the investment manager.

**Minimum Qualifications:**

1. The firm must be a Registered Investment Advisor under the Investment Advisors Act of 1940.
2. The firm must have experience in the management of institutional portfolios operated under prudent person standards;
3. The firm and/or the firm's principals in former associations must have a verifiable, historical 5 year performance record for the product being offered, preferably compliant with Global Investment Performance Standards (GIPS), and the principals must have at least five years of related investment management experience;
4. The firm must have a minimum of \$300 million in assets under management in the strategy.
5. The firm must have at least five distinctly different clients;
6. Comply with all Federal and State laws applicable regarding investment entities.
7. Carry errors and omissions insurance or a comparable instrument to cover the firm's negligent acts or omissions.
8. Maintain sufficient procedures and capabilities to ensure the timely and accurate backup and full recovery for all computers and other data storage systems related to the IMA.
9. At all times, the Fund's account can comprise no more than 15% of the manager's asset under management in the strategy;
10. The manager must be willing to charge a fee that is similar to those charged by the Fund's current managers with similar characteristics in the corresponding asset class.
11. Comply with the Fund's Most Favored Client Policy, Broker Dealer Utilization Policy and Ethics Policy.

**Evaluation Criteria**

1. Investment Philosophy and Methodology
2. Performance
3. Firm Background, Experience and Reputation
4. Portfolio Management and Client Services
5. Reasonableness of Fees
6. Fit with the Fund's Overall Investment Policy and Allocations Among Existing Investment Advisers

The consultant, with the guidance of the Fund's staff, shall determine how well the proposal meets the review criteria. The consultant shall present a list of higher qualified respondents to the Board.

**Quiet Period**

According to the Fund's Procurement Policy for Investment Advisers, the Quiet Period shall begin as of the deadline for the submission of responses to the RFP/SIA and end when the selection has been made by the Board. The Quiet Period prohibits respondents from communicating with the Board or staff regarding any product relative to this search. During the Quiet Period, the Board, staff and consultant cannot accept meals, travel, lodging or any other goods or service of value from the respondents. A respondent will be disqualified for violating the Quiet Period. Questions regarding the search shall be forwarded to the consultant.

**Post Performance Review Process**

Post performance review, including termination, shall be conducted in accordance with the Fund's Formal Investment Policy which can be found on the Fund's website.

**Disclosure of Proposal Content**

Respondents are advised that proposal materials are subject to the Illinois Freedom of Information Act, 5 ILCS 140. The law requires that at the conclusion of the selection process, the contents of all proposals be placed in the public domain and be open to inspection by interested parties. Trade secrets, confidential or proprietary information must be clearly identified as such in the proposal and will not be released to the extent permitted by law.

**Disposition of Proposals**

All proposals become the property of the Fund and will not be returned to the respondent. The Fund reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance of the conditions contained in this RFP.

Thank you for your interest in this RFP and we look forward to your response.

**REQUEST FOR PROPOSAL/SEARCH FOR INVESTMENT ADVISOR**

**Large Cap Value Equity**

*All proposals must be complete in every respect and must answer concisely and clearly all questions proposed by this RFP. Incomplete proposals will be disqualified.*

Date: \_\_\_\_\_

Name: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Phone: \_\_\_\_\_

Fax: \_\_\_\_\_

Mailing Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Primary Contact: \_\_\_\_\_

Email Address: \_\_\_\_\_

Product: \_\_\_\_\_

Benchmark: \_\_\_\_\_

**SECTION 1  
ORGANIZATIONAL BACKGROUND**

1. Ownership Structure:

\_\_\_ Independent Advisor      \_\_\_ Bank Affiliated      \_\_\_ Broker Affiliated

\_\_\_ Insurance Affiliated      \_\_\_ Mutual Fund Company

\_\_\_ Other (Please Describe)

Employee Ownership    \_\_\_%

Non-employee Ownership    \_\_\_%

**Minority Status**

2. A minority, woman, or disabled-owned firm is defined as a sole proprietorship, partnership, or corporation owned, operated and controlled by minority group members who have at least 51% ownership. (If applicable, please attach your firm's minority certification)

Owner Name	Ownership %	Minority Designation

3. Please list the name and address of any entity that is a parent of or owns a controlling interest in the responding firm, any persons who have ownership or distributive income share in the firm that is in excess of 7.5%, and the executive officers of the firm.
4. Please list the location(s) of your headquarters, branch offices and the primary function of each office.
5. Please describe the levels (dollar amounts) of coverage for SEC-required (17 g-1) fidelity bonds, errors and omissions coverage and any other fiduciary coverage which your firm carries. List the insurance carriers supplying the coverage.
6. Within the last three years has the firm, any predecessor of the firm, or a member of the firm:
  - a. Been the subject of any stop order, consent decree censure, reprimand or any other disciplinary action by the SEC, NASD, NYSE, ASE, or any other state or federal regulatory agency? If yes, please explain.
  - b. Is any employee or any of your affiliates (*including third party vendors*) currently the subject of *any* current investigations, which there are no formal charges yet rendered? If yes, please explain.
7. Please discuss any conflicts of interest your firm may have in the management of any client accounts. Include any activities of affiliated or parent organizations, brokerage activities, investment banking activities or any past or current relationships of any kind with board members. Include any other pertinent activities, actions, or relationships not specifically outlined in this question.
8. Please provide the total assets in your Large Cap Value composite as of 6/30/2011.
9. Please list in columns the following information for each year:

Assets Under Management	As of 6/30/11	2010	2009	2008	2007	2006
Large Cap Value						

10. Please provide your current representative institutional Large Cap Value client list with the following information as of June 30, 2011:

Institutional Client	Classification	Large Cap Value (\$AUM)	Inception Date	Separate or Commingled?

11. Please provide the type of client, benchmark, total amount of assets managed, and date of account inception for three current institutional clients.
12. In separate paragraphs, please give the name and asset value of all the terminated institutional Large Cap Value client relationships for the past five years. Please include the stated reason for the termination.

**SECTION 2  
PEOPLE/ORGANIZATION**

1. Please fill out the following table regarding your firm’s professional characteristics.

	African American	Woman	Asian	Hispanic	Native American	Disabled	Total
Senior Executives /							
Inv. Professionals (Excluding Traders)							
Inv. Professionals (Traders)							
Inv. Professionals (Excluding Sales / Marketing & Client Service)							
Sales / Marketing & Client Services							
Office / Clerical							
Technicians							
Other Non-Professionals							

2. Please provide the biography information on the Large Cap Value team in paragraph form.
3. Please list your firm’s key professionals in the format provided below: *Highlight the person(s) who would be responsible for the account/product you are answering this questionnaire for today.*

Name	Responsibility	Yrs. With Firm	Yrs. With Prior Firm	Total Years

4. Have any personnel left or joined the firm in the last three years? If so, please indicate when and why. *For this questionnaire, we are interested in how many (1) Portfolio Managers, (2) Chief Investment Officers, (3) Analysts, or any individual(s) responsible for the strategic oversight of your investment process that have left the firm since inception?*
5. Please discuss your organization's compensation and incentive program. Included in your answer, please include information on the following:
  - a. How are professionals evaluated and rewarded?
  - b. What criteria must be met for employees to become vested owners of your firm, if any?
  - c. If no employee ownership program exists at this time are there any plans to include one in the future?
6. Please describe your succession plan and how it will be executed when there is a major change in the company structure regarding a majority shareholder/equity owner or senior officers with the company. Have you had to execute any portion of this succession plan since your firm started marketing investment services to clients?

**SECTION 3**  
**INVESTMENT PHILOSOPHY**  
**Policy and Process**

1. Please describe the investment philosophy for your firm's Large Cap Value investment product(s).
2. Have any market events in the past allowed you to make changes to prepare your investment process for future market cycles? What modifications were made to ensure the future stability of your process during difficult market environments?
3. Please provide research to support the belief that your process will outperform your best-fit style benchmark in the future market cycles.
4. Describe the decision making process. Please include the following in your answer:
  - a. How much latitude/discretion does the portfolio manager have, if any? Please provide an example of when the portfolio manager will use their discretion to change an investment decision when there was a research conflict.
  - b. Will your firm change model portfolios in order to meet certain client objectives?
5. How does your firm efficiently implement the investment philosophy during the portfolio construction process for clients?
6. We believe that all clients who hire an active manager are looking for some level of alpha performance. Please list the several ways your investment process is designed to add alpha to client portfolios. Please be very specific and provide examples and research.
7. Please discuss your buy process and your sell process in separate paragraphs. Provide current examples of how each will work.
8. Describe your investment strategy (e.g., top-down; bottom-up; fundamental; quantitative; contrarian; technical), including the importance of each component.

9. How much technical analysis is performed on securities held in your client portfolios?
10. What has your annual turnover ratio been during the last three years?
11. Are futures, options, commodities or other derivatives utilized (when and how much)?
12. Do you utilize Exchange Traded Funds in the portfolio? If so, please describe.
13. How many issues are contained in a typical portfolio?
14. How are cash equivalents used?
15. Are securities in the portfolio typically distinguished by particular characteristics (theme, sector, dividend growth, quality etc)?
16. Are there any securities or sectors not normally held for any reason due to your typical investment analysis?
17. Please describe the universe from which securities are selected and how this universe is constructed.
18. Do you optimize your composite against any particular index? If yes, which index do you optimize your client portfolio against?
19. Please add any commentary on why your firm is unique from other investment management firms.
20. Please describe your firm's market outlook for the current year.

## **SECTION 5 RISK MANAGEMENT**

1. Describe key risk management functions and the tools utilized to manage risk.
2. Describe any risk measurement models used and how this analysis is incorporated in the portfolio management process.
3. How is portfolio risk managed and monitored?
4. Describe any risk measurement models used.

## **SECTION 6 RESEARCH**

1. Please list the systems that make your research process most efficient.
2. Please list all of the systems (proprietary & third party provided) that are utilized to construct and service your client accounts.

- For the subject product, provide approximate percentages of expected value added versus the appropriate benchmark for the following factors:

Description	Weight (%)
Industry/Sector Allocation	
Security Selection	
Trading	
TOTAL	100%

### **SECTION 7 TRADING PROCESS**

- Please describe the trading techniques that are utilized in order to protect the excess returns your process intends to deliver to clients from prohibitive transaction costs.
- What percentage of total trades is executed electronically?
- How does the firm minimize trading costs?
- Describe how trading costs are monitored?
- Discuss how your firm monitors the quality of your execution. Do you use any transaction measuring service? If yes, please identify the vendor.
- How does your firm choose and retain brokers and how is “best execution” evaluated?
- What was the average cents per share commission on trades executed over the past year?

### **SECTION 8 PROXY VOTING**

- Does your firm use a third party to vote proxies? If so, why or if not, why do you vote them yourselves?
- Does your firm have guidelines that are agreed upon by the third party, or does the manager rely on guidelines set forth by the third party?
- How does your firm assure that the proxies were voted according to the agreed upon guidelines?
- Can your firm assure us that the proxies were voted in the Fund’s “best interest?”



**SECTION 9  
DIRECTED BROKERAGE/SOFT DOLLARS**

1. Does your firm have any client-directed brokerage arrangements?
2. Does your firm execute trades directly with minority, women or disabled owned business firms or via step-outs and correspondences? Please explain.
3. The Fund's Broker Dealer Utilization Policy states that its investment managers shall direct 30% of total commission dollars, on an annual basis, to minority, women and disabled-owned Broker/Dealers. Can your Firm comply with this policy goal?
4. Do you currently have soft dollar arrangements for services with brokerage firms? If yes, please provide a list of services that soft dollars pay for and the percent of clients' commissions used to pay for these services.
5. Please provide a copy of your soft dollars policy.

**SECTION 10  
PORTFOLIO CHARACTERISTICS**

1. Please complete the industry breakdown table below for the subject product versus your preferred index as of the following quarter-end periods: Please list index.

	Product %	Index %	Product %	Index %	Product %	Index %
Industry	2Q11	2Q11	1Q11	1Q11	4Q10	4Q10
Financials						
Consumer Discretionary						
Consumer Staples						
Industrials						
Utilities						
Materials						
Health Care						
Information Technology						
Energy						
Telecommunication Services						
Cash						
Total						

2. Please complete the following characteristics table for the subject product versus your preferred index as of the following quarter-end periods:

	Product	Index	Product	Index	Product	Index
Characteristic Description	2Q11	2Q11	1Q11	1Q11	4Q10	4Q10
\$Weighted Avg. Market Capitalization (Cap.)						
\$Median Market Cap.						
Price/Book ratio						
Price/Sales ratio						
Price/Earnings ratio						
Dividend Yield						
Smallest and largest market cap. Position in your composite.						
Return on Equity(ROE)						
Avg. 5 year projected growth rate of companies in the composite						
1 year forecast P/E						
5 year forecast P/E						
% Market cap ranges						
Large Capitalization: \$55B & Above						
Medium/Large Cap.: \$12B- \$55B						
Medium Capitalization: \$4B- \$12B						
Medium/Small Cap.: \$1.5B-\$4B						
Small Capitalization: \$1.5B & Below						

3. Please discuss your typical market capitalization ranges vs. your best-fit benchmark market capitalization ranges (or the benchmark you optimize against).
4. What are your diversification guidelines?
5. What are the individual position weighting guidelines?

**SECTION 11  
COMPOSITE ANALYSIS**

Please include the following information regarding your composite as of the end of the last calendar quarter:

1. Please provide your composite quarterly returns since inception for the subject product (including cash).
2. Please provide the number of accounts in your composite every year since the firm inception date. Be sure to include the annual dollar value of the composite since inception as well.
3. How much dispersion is there between your best performing account and your worst performing account in your composite during an average quarter? Please provide the most recent information that your firm has available.
4. How long have you been in compliance with GIPS performance standards? Do you have annual audits of your composite? If no, when was the last time your composite was audited?

**SECTION 12  
FEES**

Please list how the following would apply to your separate account and commingled fund products (We recognize that some of this information is only applicable to separate accounts alone).

1. Proposed fee schedule:

<u>Market Value of Portfolio</u>	<u>Manager's Fee In Basis Points</u>
First \$ _____ Million	_____
Next \$ _____ Million	_____
Next \$ _____ Million	_____
(Additional Breakouts if needed)	

2. Provide your firm's fully discretionary investment guidelines for the product. Does your firm offer this product in a commingled fund?
  3. Do you have a most favored client policy?
  4. The Fund's IMA requires that the investment firm certifies that "no finder's fee or finder's commission or any other consideration has been, or will be paid to any individual or organization, other than a bona fide employee working solely for the investment firm, resulting from the establishment of this investment management relationship with the Fund." Would your firm be able to make this certification?
-

I certify that the returns reported by my firm are representative of those achieved for accounts with similar guidelines and objectives and have been calculated in accordance with accepted performance measurement standards.

I certify that the firm meets the terms of the RFP/SIA including the Minimum Requirements of the RFP/SIA.

I certify that I am an officer authorized to contractually bind the firm.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Name

\_\_\_\_\_  
Date

Thank you for completing the questionnaire. You may email this questionnaire and your ADV Part II to our Consultant Search Contact, Yolanda Waggoner-Foreman at: [research@egrayco.com](mailto:research@egrayco.com).