

Nebraska Investment Council

Request for Proposals for Consulting Services

April 6, 2011

Deadline: May 13, 2011 5:00 p.m.

I BACKGROUND INFORMATION

The Nebraska Investment Council (NIC) is the investment agency for the State of Nebraska (the State) managing the assets of over 30 different entities. The entities fall into eight major categories. The assets involved include the State's retirement plans (The State Employees' Retirement Plan, Nebraska School Employees' Retirement System, Nebraska Judges' Retirement System, Nebraska State Patrol Retirement System, State of Nebraska Employees' Deferred Compensation Plan and Nebraska County Employees' Retirement System), Operating Investment Pool, the College Savings Plan, and other trusts and endowments. A copy of the 2010 Nebraska Investment Council Annual Report, Council policies and other governance documents may be found at www.nic.ne.gov.

The assets are managed both externally and internally dependent on the decision of the NIC and the State Investment Officer.

II PURPOSE

The primary purpose of this Request for Proposals (RFP) is to identify the most qualified firm(s) to provide, on an ongoing basis, general retainer investment consulting services and specialized real estate and alternative investment consulting as described in Section III, Scope of Work of this RFP.

Whether the NIC selects a single investment consulting firm or determines to select multiple firms will be solely at its discretion. The decision will depend upon the cost of such services in relation to the level and quality of service offered to obtain the best combination of expertise, level of service and acceptable cost.

III SCOPE OF WORK

The scope of the assignment is to assist the NIC and internal staff with consulting services, which includes the following:

- Advising the NIC and staff on investment guidelines and policies
- Advising on investment management analysis
- Advising on strategic and tactical investment issues
- Advising on investment operations (internal vs. external management)
- Advising on proxy policies
- Advising on asset allocation
- Advising on management structure (active vs. passive, investment style mixes)
- Advising on performance measurement
- Advising on additional asset classes
- Advising on alternative asset vehicles, including real estate and private equity
- Providing special research on asset classes
- Assisting in rebalancing activities
- Providing manager searches and selections
- Providing custodian bank search and selection
- Providing quarterly performance analysis, including private equity and real estate partnership investments
- Providing quarterly performance analysis and review for private equity partnership and real estate partnership investments

- Performing asset and liability analysis
- Performing risk management analysis
- Providing objective and creative input in the process of fulfilling its fiduciary responsibilities
- Providing advice, counsel, and education on investment matters to the NIC and the State Investment Officer
- Attending six regular meetings held in Lincoln or Omaha, special meetings as needed, and mid-summer retreat. It is expected that the lead consultant(s) will attend each meeting
- Facilitating asset allocation decisions
- Assisting in the evaluation of investment advisors
- Attending NIC meetings and be prepared to provide analysis as requested by the NIC or the State Investment Officer
- Assisting in money manager searches, guideline construction, and contract negotiations
- Providing performance measurement and analytics for all applicable funds

IV MINIMUM QUALIFICATIONS

Proposers must satisfy each of the following minimum qualifications in order to be considered for the contract award:

- A.** The investment consulting firm must be a registered investment advisor under the Investment Company Act of 1940.
- B.** The investment consulting firm must agree to be a fiduciary to the plan as that term is defined in (state law or policy).
- C.** Acceptance of a written agreement.
- D.** Agreement to provide the services as detailed in Section III, Scope of Work.
- E.** Each of the key professionals and the organization must have at least ten years experience providing general and specialized consulting services to large retirement funds and endowments.
- F.** The key professional assigned as primary consultant must have at least ten years experience in providing consulting services to large retirement funds and endowments.
- G.** The organization must have at least two public fund clients with a minimum of \$5 billion assets each. At least one of these clients must be a public retirement or pension plan.
- H.** The investment consulting firm must agree to disclose all conflicts of interest, all sources of revenue and all affiliations.
- I.** The key professionals and the organization must not have, nor could they potentially have, a material conflict of interest with the NIC.

V PROPOSAL REQUIREMENTS

A. Instructions for Completion

Firms responding to the RFP should:

1. Prepare their proposals according to the requested format.
2. Respond directly to each question.
3. Provide relevant attachments as appropriate.
4. Submit their proposed fee calculation.

B. Bid Due Date

In order to be considered, five copies of the proposal must arrive at the office by the date and time specified below.

Address: Jeffrey W. States
State Investment Officer
Nebraska Investment Council
941 O Street, Suite 500
Lincoln, Nebraska 68508

Date: May 13, 2011 5:00 p.m.

Any bid received after the date and time specified above or at another location may be automatically rejected.

C. Cost Liability

The NIC and the State of Nebraska assume no responsibility and no liability for costs incurred by bidders responding to this RFP or prior to the issuance of a contract.

D. Proposer's Responsibility

Each firm should familiarize itself with the service specifications and the work to be performed before submitting a response. All bids are to remain valid for at least six months from the date of submission.

E. Overall Presentation

Bidders who submit a proposal in response to this RFP may be required to give an oral presentation of their proposal to the NIC. This will give the bidder an opportunity to clarify or elaborate on its proposal, but will in no way change the bidder's original submission.

F. Rejection of Proposals

The State Investment Officer and the NIC reserve the right to reject any or all responses, with or without cause, without incurring any liability whatsoever.

G. Evaluation Criteria

An award will be made, after an evaluation of the proposals, to the firm whose proposal best meets the needs of the NIC, based on, but not limited to, the factors set forth below.

- Proposed services
- Performance

- Firm experience
- Staff qualifications
- Financial condition
- Quality of proposal
- Adherence to RFP requirements
- Proposed fees

Fees and compensation will be an important factor in the evaluation process. The NIC, however, will not be required to select the lowest cost bidder.

H. Contract Execution

After final firm selection, the NIC will enter into contract negotiations with the selected firm to finalize terms, fees and conditions. This RFP and the selected firm's proposal, or any part thereof, may be included in and made a part of the final contract. The contract and all attachments will be a public document.

If an acceptable agreement with the firm is not reached within 30 calendar days of the firm's selection, the NIC reserves the right to disqualify the firm and to negotiate with the next-preferred firm.

I. Contract Term

The NIC intends to contract for a time period of five years with a possibility of annual extensions. The contract will be terminable at the discretion of the NIC at any time.

J. Further Instructions and Conditions

1. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the NIC and the firm selected.
2. Conformance with Statutes - Any contract awarded as a result of this RFP must be in full conformance with statutory requirements of the State of Nebraska and the Federal Government.
3. Amending or Canceling Requests - The NIC reserves the right to amend or cancel this RFP, prior to the due date and time, if it is in the best interests of the NIC and the State.
4. Proposer Presentation of Supporting Evidence - A proposer, if requested, must be prepared to present evidence of experience, ability, service facilities, and financial standing necessary to satisfactorily meet the requirements set forth or implied in the proposal.

K. Open Records and Open Meetings

This RFP and all material submitted to the NIC by any applicant shall be subject to the provisions of the Nebraska Open Meetings Act (§84-1407 et seq.), the public record statutes (§84-712.01 et seq.) and any other Nebraska "sunshine" law. If any applicant claims that any material submitted to the NIC is exempt from disclosure as a public record under §84-712.05(3), the applicant must conspicuously mark such material as "Confidential." The NIC and the Nebraska Attorney General have the sole discretion to determine whether material submitted by an application is subject to disclosure pursuant to Nebraska law. The NIC and the Nebraska Attorney General are

under no obligation to take any affirmative action to prevent the disclosure of applicant information pursuant to Nebraska law.

VI REQUEST FOR PROPOSAL QUESTIONNAIRE

The following questionnaire must be completed and included with your response to this RFP.

Limit your response to this questionnaire to no more than 30 pages in total, thus responses should be as concise as possible. Responses in outline form are acceptable. Responses to requests for sample reports or exhibits where noted **will not be included** in the 30 page maximum.

Type your responses in the same order as the questionnaire, listing the question first (including the letter and number) followed by your answer.

A. Background of the consulting firm (2 page maximum)

1. Briefly describe your firm's background, history, and ownership structure, including any parent, affiliated or subsidiary company, and any business partners.
2. Please describe the services your firm provides and give the percentage of revenue derived from investment consulting.
3. Provide an organization chart of your firm and describe the relationship between each component and your consulting group.
4. Within the past three years, have there been any significant developments in your organization such as changes in ownership, restructuring, or personnel reorganizations? Do you anticipate future significant changes in your organization?
5. Please give the address of your corporate office and indicate which office(s) would service NIC.
6. Describe any services of your organization that may not be offered by other consultants.

B. Consultants (1 page maximum):

1. How many investment consultants does your firm have?
2. Discuss the ways you manage growth, including any limits to the client/consultant ratio.

C. Standards of conduct (1 page maximum):

1. Does your firm have a written code of conduct or a set of standards for professional behavior? If so, how are they monitored and enforced?
2. Has your firm adopted CFA Institute's Code and Standards? If so, how is employee compliance monitored?
3. How are consultants' recommendations to clients reviewed and monitored by your organization? Does your firm adhere to a level of consistency in consultant recommendations?
4. Within the last five years, has your organization or an officer or principal been involved in any litigation, claim or investigation relating to your business? If so, please provide an explanation and indicate the current status or disposition.
5. Has your firm or any officer or principal ever been disciplined by any regulatory body? If so, please describe the situation.

D. Conflicts of Interest (3 page maximum):

1. Based on the list of investment managers currently managing assets for NIC, please disclose any business your firm, affiliates, or parent company does with any of investment managers.
2. Are there any potential conflict of interest issues your firm would have in servicing NIC? If so, describe them.
3. How does your firm identify and manage conflicts of interest?
4. What is your firm’s policy on soft dollar payments? What percentage of your clients has soft dollar arrangements with your firm?
5. Does your firm hold or sponsor money manager or client conferences? Please describe all conferences your firm has held or sponsored in the past two years. Please note if any members of the NIC or staff have been in attendance.
6. Have you or anyone in your firm provided any gifts, travel and room expenses, entertainment or meals to any NIC member or staff during the past 12 months? If yes, please describe the amount of expenses and what it was for.
7. List and describe any professional relationship you have with the NIC plan sponsor or legislative oversight bodies during the past three years.
8. Are there any circumstances under which your firm or any individual in your firm receives compensation, finder’s fees or any other benefit from investment managers or third parties? If yes, please describe in detail.

E. Consulting team (2 page maximum):

1. Please provide contact information for each consultant that will be assigned to NIC in a grid similar to this.

Name	Address	Business Phone	Business Fax	E-mail Address

2. Please describe the role of each consultant for this assignment.
3. Please provide your rationale for choosing the consulting team members.
4. Please include biographical information for each consultant that will be assigned to NIC.
5. Please describe your team’s experience with similar work performed for other public retirement systems, corporate pension funds, endowments or similar institutional investors.
6. State whether the individuals assigned to the work have any responsibilities other than providing consulting services, and if so, specify such responsibilities.
7. Describe your firm’s backup procedures in the event that key personnel in this assignment should leave the firm.

F. Asset Allocation (3 page maximum):

1. Is your firm capable of performing asset/liability modeling studies?
2. Discuss the theory and methodology of the asset allocation models your firm employs. How do you develop asset class assumptions?

3. Describe your policy for changes to a pension system's asset allocation with changes in the market environment.
4. Explain your firm's position/approach regarding internal investment management versus external management.
5. Describe your firm's capabilities and experience in advising and assisting internal investment managers and staff.
6. Explain your firm's position/approach on the use of active versus passive management in the major asset classes.
7. Describe your capabilities and experience in the area of real estate and alternative investments. List the factors you would consider in recommending real estate and alternative investment options. Describe the elements of a due diligence process for assessing the merits of real estate and alternative investments.
8. Describe your methodology for identifying and evaluating new investment opportunities.

G. Investment policies (2 page maximum):

1. Describe your approach to the analysis of applicable legal parameters/restrictions under which NIC must operate.
2. Describe your approach to the development of an investment policy statement.
3. Detail your process for the development of asset class structures.
4. Describe your capabilities in the development of appropriate shareholder responsibility and proxy voting policies and procedures in consultation with the NIC, staff and counsel.
5. Describe your process for maintaining a continuous review of investment policies.

H. Investment manager database (2 page maximum):

1. Does your firm maintain an in-house database of investment managers? If not, from what vendor do you purchase the database? How many managers/products are contained in the database?
2. Do you charge direct or indirect fees for investment managers to be included in your firm's database? If so, describe the fees.
3. If you have an in-house database, do you sell it to third parties? How do you receive compensation for selling it?
4. Describe any advantages that you perceive your database has over your competitors.
5. Describe your methodology and criteria for classification of managers by investment style, size, etc. How do you monitor consistency of style?
6. How often are managers in your database reviewed? Under what circumstances are managers added to your database? Deleted?
7. Describe how your firm gathers, verifies, updates, and maintains the data collected on managers for the database. Do you use surveys or meetings with managers?
8. If you meet with managers, how often do you do that? What is the nature of those visits?

I. Investment manager searches (1 page maximum):

1. Describe your firm's due diligence process and procedure for the evaluation and selection of recommended investment managers and for alternative investment vehicles.
2. Describe your experience in selecting investment managers.
3. Do you provide a legal review of investment documents, such as limited partnership agreements and side letters?

J. Custodian bank database (2 page maximum):

1. Does your firm maintain an in-house database of custodian banks? If not, from what vendor do you purchase the database? How many banks/products are contained in the database?
2. Do you charge direct or indirect fees for custodian banks to be included in your firm's database? If so, describe the fees.
3. If you have an in-house database, do you sell it to third parties? How do you receive compensation for selling it?
4. Describe any advantages that you perceive your custodian bank database has over your competitors.
5. How often are custodian banks in your database reviewed? Under what circumstances are banks added to your database? Deleted?

K. Custodian banks searches (1 page maximum):

1. What are your criteria for selecting a custodian?
2. Describe your experience in conducting analyses of custodians.

L. Performance Evaluation (2 page maximum):

1. Do you have the capability of using rates of return calculated by the NIC custodian bank in your performance evaluation reports?
2. Can your firm provide custom/style benchmarks and universes? Are the returns in your universe actual client returns or composite returns as reported by managers?
3. What amount of input may the client have in the content and format of an investment performance evaluation report?
4. Discuss the portfolio analytics your firm is capable of providing. Do you have international analytics capabilities?
5. Describe your capabilities in the production/interpretation of trading cost studies.
6. Describe your capabilities in the production/interpretation of securities lending.
7. Describe your capabilities in the development of risk/return characteristics of the asset mix as a whole and of each asset category and manager style.
8. What asset classes are tracked in your performance measuring system? How many managers are included within each asset category? How many years of performance data are on the system for each asset class?
9. What factors do you consider to be critical in reporting performance? Do you have the ability to customize reports for your clients?

10. How are performance benchmarks for the total fund, different asset classes and investment manager styles chosen and constructed?
11. Do you use style benchmarks in your performance measurement process? What are the sources of the underlying data and how are these benchmarks calculated and maintained?
12. Do you reconcile your calculated performance with investment managers' and custodians' reports? If yes, please describe.

M. Reporting (1 page maximum):

1. Describe your portfolio reporting and performance analytics capabilities, including the number of staff assigned to this task, their job description, education and training.
2. Please include biographical information for each member of the reporting team assigned to the NIC.
3. Describe the career path for members of the reporting team.
4. What period of time is required to prepare reports after the end of each quarter?
5. Give a brief overview of the hardware and software systems used in the production of performance reports.
6. Provide a sample of a public fund performance report and performance attribution.

N. Research (1 page maximum):

1. Describe the internal structure and organization of your research department. If no separate department exists, describe how this function is performed.
2. Describe the manner in which external resources and sources of information are used in the research process. How does your firm integrate internal and external research?
3. Describe the type, subject matter and frequency of research provided to clients.
4. Describe your ability to provide customized computer-based analytical tools to your clients. Please describe features.
5. Describe your firm's process for monitoring industry and market trends affecting investment funds.

O. Council Member Education (1 page maximum):

Does your firm offer training of plan fiduciaries as it relates to their investment responsibilities? If so, describe the type of training available and the qualifications of the individuals assigned to conduct the training.

P. References:

Please provide three references who are clients for whom work similar to that requested in this RFP has been performed.

Q. Previous clients:

Please list public sector clients who have terminated your consulting relationship during the past three years and their reasons for doing so. Please include their names, titles and telephone numbers.

R. Insurance and liability:

1. What limitation on liability, if any, do you impose through your contract?
2. Please describe the levels of coverage for errors and omissions insurance and any fiduciary or professional liability insurance your firm carries. Is the coverage on a per client basis, or is the dollar figure applied to the firm as a whole? List the insurance carriers.

3. Describe your disaster recovery plan and facilities.

S. Subcontracting:

1. If your firm uses the services of a subcontractor, please identify the subcontractor and describe the skills and qualifications of the subcontractor and its individual employees.
2. Describe what portions of the project will be assigned to the subcontractor.
3. Identify the cost associated with the portions of the project assigned to the subcontractor.
4. Describe the inclusive periods and percentage of time the subcontractor will devote to the project.
5. Describe the contractual arrangement contemplated with each subcontractor and describe generally the control/delegation of responsibilities anticipated in that arrangement.

T. Fees:

1. Please provide a proposal regarding the fees to be paid to your firm for the services identified in the Section III, Scope of Work. The proposal should provide fees based upon a bundled fee for all services identified as well as an unbundled fee for each discrete service identified in the Section III, Scope of Work.
2. Identify the period of time the proposed fees will remain in effect.
3. Describe whether the firm has previously performed investment consulting services under the proposed fee arrangement and, if so, its experience.
4. Has the firm provided investment consulting services under alternative fee arrangements? If so, please describe.
5. Does your firm's proposed fee arrangement consist of any incentive or contingent payments? If so, please describe the manner of calculation in detail.

Appendices

Appendix A. Biographies

Please include biographies for all consultants listed in your proposal. Indicate what year each consultant joined your firm and describe his or her position, current responsibilities, areas of expertise, experience, education, professional designations and memberships, and relevant publications and presentations.

Appendix B. Form ADV Part I and II

Please attach your firm's current Form ADV Part I and II.

Appendix C. Annual Financial Report

Please attach your firm's current Annual Financial Report.

Appendix D. Sample Contract or Agreement

Please attach a sample contract or agreement your firm uses for investment consulting services.

Other Information

1. Please describe areas or processes, not included in the scope of this engagement that your firm may examine in order to provide more complete and thorough services.
2. Provide any additional information that you believe to be relevant to the RFP and your capability to provide the services requested.