

District of Columbia Retirement Board (DCRB)

Request for Proposals for Transaction Cost Analysis and Transition Management Consulting Services

Solicitation Number: DCRB-13-009



Release Date: June 28, 2013

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A. Overview

The District of Columbia Retirement Board (“Board”), an independent District of Columbia government agency, is a defined benefit plan that manages assets in excess of \$5 billion for the Teachers’ Retirement Fund and the Police Officers and Firefighters’ Retirement Fund (the “Funds”). The Board is overseeing a globally diversified investment portfolio with the investment activities being outsourced to a group of traditional (fixed income and public equity) and alternative (hedge fund, private equity, real assets) investment managers. A list of the Board’s current traditional investment managers is included as Attachment A.

B. Scope of Services

The Board is seeking a consultant (“Offeror”) to help it fulfill its fiduciary obligation of monitoring its external investment managers’ trading costs and transition management services:

Trade cost analysis (TCA): The firm will prepare quarterly monitoring reports detailing managers’ equity, fixed income and foreign exchange trade costs during the prior quarter, identifying trends and patterns over multiple quarters, and benchmarking managers’ trade costs relative to peers. The reports must be submitted to the Board within 30 days after the end of each calendar quarter. While other metrics are welcome, primary emphasis should be implementation shortfall (so as to quantify the loss of asset value incurred by the Funds). The service should also flag significant issues warranting follow-up with managers and work with staff on resolving such issues.

The Board currently employs 11 public equity and fixed income investment managers which manage a total of four separate accounts and 11 fund investments, not including the cash manager.

Transition management consulting: The firm will be asked to assist the Board in manager transitions by working with staff to develop optimal transition strategies, objectively evaluate and recommend the selection of transition managers, and prepare pre- and post-transition analysis reports. In providing these services, the firm must render their advice and recommendations as a fiduciary, utilizing a standard consistent with that of an ERISA fiduciary.

The Board typically completes two to three manager transitions per year.

C. Deliverables

The firm must provide the following deliverables in hard copy (three copies) and softcopy (Adobe Acrobat or Microsoft Office compatible) to successfully complete the Board’s requirements.

Transition Cost Analysis (“TCA”) Deliverables

C.1 Equity TCA Deliverables

- a. Prepare and deliver quarterly monitoring report including the following

metrics, at a minimum:

- i. Total costs (implementation shortfall)
 - 1. Delay costs
 - 2. Impact costs
 - 3. Commissions
- ii. Benchmarks (to evaluate the Implementation Shortfall costs)
 - 1. Total cost benchmark
 - 2. Brokerage cost benchmark
 - 3. Commission benchmark
- iii. Peer Group Universe Rankings (based on each managers investment mandate)
 - 1. Total costs
 - 2. Execution efficiency
 - 3. Brokerage efficiency
 - 4. Commission
- iv. Brokerage cost efficiency ranking
- v. Decisions and Decision characteristics: Number and dollar value of unique buy/sell decisions, Turnover ratio, Momentum, Liquidity, Market cap, Number of shares
- vi. Traded returns, before and after costs
- vii. Use of dealers
- b. Recommend strategies to manage trade costs
- c. Meet with staff to review quarterly reports (by phone or in person)
- d. Meet with existing investment managers to review trade cost trends and observations (by phone or in person)
- e. Meet with Board to review trade cost analysis results (in person, once per year)

C.2 Fixed Income TCA Deliverables

- a. Prepare and deliver quarterly monitoring report including the following metrics, at a minimum:
 - i. Total costs (implementation shortfall)
 - ii. Total costs (VWAP)
 - iii. Trade volume and Cost trends (over time) and cost distributions
 - iv. Trade diagnostics: Credit Quality, Sector, Maturity
 - v. Trade outliers
 - vi. Use of dealers
- b. Recommend strategies to manage trade costs
- c. Meet with staff to review quarterly reports (by phone or in person)
- d. Meet with existing investment managers to review trade cost trends and observations (by phone or in person)
- e. Meet with Board to review trade cost analysis results (in person, once per year)

C.3 Foreign Exchange TCA Deliverables

- a. Prepare and deliver quarterly monitoring report including the following metrics, at a minimum:

- i. Trades executed through custodian
 - 1. Total costs (vs. Trade Date Mid)
 - 2. Total costs (vs. London Fix)
 - 3. Total costs (vs. Trade Date Open)
 - 4. Total costs (vs. T-1 Close)
 - ii. Trades executed through other Dealers
 - 1. Total costs (vs. Trade Date Mid)
 - 2. Total costs (vs. London Fix)
 - 3. Total costs (vs. Trade Date Open)
 - 4. Total costs (vs. T-1 Close)
 - iii. Trade volume and Cost trends (over time) and cost distributions
 - iv. Trade diagnostics by: SPOT, Forward, Currency Pairs, Counterparties
 - v. Daily trade graphs comparing executions vs. each day's high, low, and mid rates.
 - vi. Use of Counterparties
- b. Recommend strategies to manage trade costs
- c. Meet with staff to review quarterly reports (by phone or in person)
- d. Meet with existing investment managers to review trade cost trends and observations (by phone or in person)
- e. Meet with Board to review trade cost analysis results (in person, once per year)

Transition Management Consulting Deliverables

C.4 Transition Management Consulting Deliverables

- a. On as needed basis (estimated between two and three times per year) , prepare and deliver three (3) copies of Pre-transition Reports, Transition Planning/Strategy advise and recommendation, trade monitoring, and Post-transition Reports, including the following services, at a minimum:
 - i. Pre-transition Planning
 - 1. Portfolio characteristics
 - 2. Pre-trade cost estimates (under different market conditions)
 - 3. Transition Manager universe database
 - 4. Meet with staff to review all and provide fiduciary recommendations on strategy and optimal Transition Managers
 - ii. Transition Implementation
 - 1. Bid solicitation
 - 2. Bid evaluation
 - 3. Execution monitoring
 - iii. Post-transition Reporting
- b. Meet with staff to review reports (by phone or in person)
- c. Meet with Board to review transition results (in person, as needed)

The turn-around time from the Board's notification to delivery of the report or recommendation by the consultant will vary depending on the scope and nature of the request(s). Deliverables resulting from requests made by the Board are expected to be no

longer than 15 workdays, but may be less depending on special circumstances.

D. Minimum Qualifications and Proposal Requirements

Proposals should be as succinct as possible while providing an accurate picture of the firm's ability to meet the needs of the Board in a thorough, accurate, responsive and cost-effective manner. Each proposal must contain the following elements:

Minimum Qualifications

Respondents must meet all of the following criteria to be given further consideration in the Board's search. Failure of a firm to meet the minimum qualifications will result in the proposal's immediate rejection. The firm must affirm that it meets the minimum qualifications as part of the transmittal letter. All required signatures and attached documents must be submitted with the transmittal letter to ensure the consultant meets the minimum qualifications.

- A. The firm agrees to serve as a "fiduciary" to the Board, as the term is defined by the Employee Retirement Income Security Act of 1974 (ERISA) and the D.C. Retirement Reform Act (Pub. L. 96-122) D.C. Code Sections 1-702(20) and 1-741 (a) (1).
- B. The firm has reviewed and responded in writing to the questions in Attachment B.
- C. The firm has (i) reviewed and signed the representations and warranties, outlined in Attachment C, and (ii) agrees that, if retained to provide consulting services, such representations and warranties will be incorporated into the consulting contract. Limited drafting changes may be negotiated during contract negotiations.
- D. The firm has provided at least five (5) years of transaction cost analysis and transition management consulting services to at least three institutional funds with more than \$5 billion in assets.
- E. The firm will designate a senior consultant with a minimum of ten (10) years of experience in transaction cost analysis consulting to work on the Board's account.
- F. The designated senior consultant ("Primary Consultant") will be expected to quickly and thoroughly become knowledgeable and up-to-date with the Board's portfolio, to provide clear and cogent reports, and to attend meetings as specified by the Board or its staff. The Primary Consultant may not be changed during the life of the contract without the express written approval of the Board.
- G. The firm must acquire adequate fiduciary liability insurance in accordance with Section 410 of ERISA.
- H. The firm must submit proof of SEC registration or official letter stating the firm's exemption, if applicable.

Transmittal Letter

The proposal must include a transmittal letter signed by an individual legally authorized to bind the respondent to both its technical and cost proposals. The transmittal letter must contain the name, title, address, email address, and phone number of the person(s) who are authorized to represent the firm and to whom the Board should direct follow-up correspondence. In addition, the transmittal letter must certify that the respondent meets the “Minimum Qualifications” stated in Section D of this solicitation.

Understanding of the Services Needed

In this section, describe your understanding of the services covered by this Request for Proposal (RFP). Please provide the Board with information regarding your approach and methodology to the scope of work outlined in the RFP. Describe your firm’s capabilities to provide transaction cost analysis consulting and transition management consulting services to the Board. Please tailor your proposal to meet the specific needs outlined in Sections B and C of this RFP.

References

List at least five (5) recent references for similar services performed in the last three (3) years including at least three (3) references from a public pension fund for which similar services are currently provided. For each reference listed, include:

- client name
- address
- name of a contact person, telephone and email
- nature of the service provided and the relationship inception date

Organizational Questionnaire

Please review and respond to Attachment B, Organizational Questionnaire.

E. Submission of Proposals

Offerors must prepare and submit both a technical proposal and a price proposal separately.

Technical Proposal:

- One original and three copies on bond paper
- Cannot exceed 30 pages including the Organizational Questionnaire
- 8 1/2 X 11 using 12 point font
- Electronically in a .pdf via a USB thumb drive

Price Proposal:

- One original and two copies on bond paper
- Cannot exceed 1 page
- 8 ½ X 11 using 12 point font
- Electronically in a .pdf via a USB thumb drive

All electronic attachments shall be submitted as a .pdf file. The Board will not be responsible for corruption of any file submitted.

Firms are directed to the specific proposal evaluation criteria found in Section F of this solicitation. The technical proposal must contain sufficient detail to provide a clear and concise response fully reflecting the manner in which the firm proposes to fully meet the requirements in Sections B and C.

Firms must complete, sign and submit all Representations, Certifications and Acknowledgments as appropriate with the proposal response to the Board. Failure to do so will result in the proposal's rejection.

Firms must submit their proposals to:

Mailing and Delivery Address

Yolanda Smith
District of Columbia Retirement Board
900 7th Street, NW
Second Floor
Washington, DC 20001

Proposals must be received by:

July 29, 2013, 5:00 p.m., EST

Proposals become the property of the Board upon submission and may be subject to public disclosure under the D.C. Freedom of Information Act (FOIA). Firms must expressly identify any information contained within the proposal that they consider proprietary and confidential.

All costs for developing proposals are the responsibility of the firm and shall not be chargeable to the Board. The Board accepts no responsibility for lost or late delivery of proposals.

The Board reserves the right to exclude from consideration any proposal received at the designated location past the date and time identified above.

Questions

Questions about the Request for Proposals must be submitted in writing by 5:00 pm EST July 10, 2013 via email to Yolanda Smith at Yolanda.Smith@dc.gov.

No contact is to be made with any Board employee other than the individual identified above concerning any matter related to this RFP.

F. Evaluation Criteria

Only proposals that meet the Minimum Qualifications will be evaluated. The evaluations may take place in two phases. Phase one will involve review of written proposals. Phase two may involve interviews and/or demonstrations with representatives of the Board's staff, Investment Committee and/or the Board of Trustees that will make the final selection. In both phases of the selection process, technical proposals will be evaluated using the following criteria:

Criteria	
1. Firm Experience and Resources – Firm will be evaluated on its experience and resources in providing similar services as described in Sections B and C, as well as the responses to the Organizational Questionnaire (Attachment B)	
2. Quality of Personnel – Firm will be evaluated on the experience and character of personnel proposed for this engagement that meet the requirements specified in Section B and C, as well as the responses to the Organizational Questionnaire (Attachment B)	
3. Understanding the Board's Objectives and Requirements – Firm will be evaluated on its understanding of the Board's requirements outlined in Section B and C of this solicitation with specific attention paid to the firm's independence, objectivity, and avoidance of conflicts of interest.	

The Board intends to award a single firm fixed price contract resulting from this solicitation. The Board will base its award on two factors: the technical quality of each offer and the price of each offer. The technical rating is considered more important than price. The Board may select an offer other than the offer with the lowest price proposal if it is determined to be in the Board's best interests.

TECHNICAL EVALUATION RATING

Proposals will be evaluated using the following adjectival criteria.

<u>Adjective</u>	<u>Description</u>
Unacceptable	Fails to meet minimum requirements; e.g., no demonstrated capacity, major deficiencies which are not correctable; firm did not address the evaluation criteria.
Marginal	Fails to meet evaluation standard; however, any significant deficiencies are correctable. Lacks essential information to support a proposal.
Acceptable	Meets requirements; weaknesses are correctable.

Exceeds	Exceeds most, if not all requirements; no deficiencies.
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Definitions for Technical Evaluations

Deficiencies: Defect(s) in the proposal which preclude acceptance; involves any part of the firm's proposal which would not satisfy the Board's minimum requirements established in the solicitation; includes failures to meet specifications, submit information or questionable technical or management approaches. Items disclosed during discussions, are evaluated in two categories: material-basis for rejection because further discussions would be meaningless; curable – may be corrected by clarifications or discussions and brought into the competitive range.

Weaknesses: Includes ambiguities, lack of complete descriptions, error in interpretation, omission of requested information, inadequate information, all of which are considered curable in discussions. An excessive number of clarifications may in itself constitute a weakness.

Strengths: Elements of the proposal that meet or exceed the minimum requirements of the solicitation and provide an identified benefit to the Board.

G. Price for Services

1. Line Items C.1, C.2, C.3: Offerors shall provide a firm fixed price for contract deliverables for the three year base period and a 2 year optional period of performance.

Contract Line Item Number (CLIN)	Item Description	Base Period	Option Period	Total Price
C.1	Equity TCA deliverables			
C.2	Fixed Income TCA deliverables			
C.3	Foreign Exchange Deliverables			
Total Price				

2. Line item C.4: Transaction Management Consulting Deliverables:

Please provide prices for consulting services based on the type and size of manager transition outlined below. Quoted price should apply to an equity or fixed income transition, but should not include commissions or any other trade execution-related costs.

Contract Line Item Number (CLIN)	Description	Base Year	Option Period	Total Price
C.4.1	Geographic Region: U.S. (less than \$200 mill)			
C.4.2	Geographic Region: U.S. (\$200 mill to \$500 mill)			
C.4.3	Geographic Region: U.S. (over \$500 mill)			
C.4.4	Geographic Region: Non-U.S. (less than \$200 mill)			
C.4.5	Geographic Region: Non-U.S. (\$200 mill to \$500 mill)			
C.4.6	Geographic Region: Non-U.S. (over \$500 mill)			
C.4.7	Geographic Region: Global (less than \$200 mill)			
C.4.8	Geographic Region: Global (\$200 mill to \$500 mill)			
C.4.9	Geographic Region: Global (over \$500 mill)			

H. Schedule of Events

Activity	Scheduled Date
RFP Released	June 28, 2013
Questions Due	July 10, 2013
Responses to Questions	July 17, 2013
Proposals Due	July 29, 2013
Contract Award	September 2013

I. Miscellaneous Provisions

The Board reserves the right to cancel this RFP at any time and to reject any and all proposals submitted in response to this RFP, if the Board determines such action or actions to be in the best interest of the Board.

The Board also reserves the right to request clarification of any submission, modify or alter the Scope of Services and solicit new submissions, reject any or all submissions, and waive immaterial irregularities in any submission.

During contract formation, if the Board or its agent is unable to agree to contract terms with the candidate receiving the highest evaluation in this RFP process, the Board reserves the right to terminate contract negotiations with that candidate. In the event of such an impasse, the Board may contract with the candidate receiving the next highest evaluation.

When the Board commences search procedures for the retention of an outside service provider (including but not limited to investment managers, attorneys, consultants, accountants, auditors, actuaries, etc.), in order to protect the integrity of the decision-making process and to avoid any and all appearances of conflict, Board members, as well as staff, shall refrain from having any intentional, unauthorized contact with such service providers, other than for ordinary and necessary business purposes (e.g., administration of an existing contract), as a matter of public record, or unintended incidental interactions. The Board's Lock-Out Rule is attached as Attachment D and is incorporated into this solicitation (RFP) by reference. **Firms, who initiate contact with Board Trustees or Staff, other than as provided in this RFP, may be disqualified from this procurement.**

Attachment A

District of Columbia Retirement Board
List of Current Investment Managers
June 2013

<u>Asset Class / Manager</u>	<u>Investment Vehicle Type</u>
<u>Cash</u>	
<u>SSgA Short-Term Investment Fund</u>	<u>CF</u>
<u>Fixed Income</u>	
<u>PIMCO Core Plus</u>	<u>SA</u>
<u>Blackrock US Debt Index Fund (Non-Lending)</u>	<u>CF</u>
<u>DDJ High Yield Strategy</u>	<u>SA</u>
<u>Mondrian International Fixed Income (June 2013)</u>	<u>CF</u>
<u>Stone Harbor Emerging Markets Debt Fund (Local Currency)</u>	<u>CF</u>
<u>Blackrock TIPS Index Fund (Non-Lending)</u>	<u>CF</u>
<u>Public Equities</u>	
<u>Northern Trust Russell 3000 Index Fund (Non-Lending)</u>	<u>CF</u>
<u>Sands Capital Large Cap Growth</u>	<u>SA</u>
<u>PIMCO StocksPLUS</u>	<u>CF</u>
<u>SSgA MSCI World ex U.S. Index Fund (Non-Lending)</u>	<u>CF</u>
<u>Gryphon International Growth Equity</u>	<u>SA</u>
<u>Cooper Rock International Small Cap Fund</u>	<u>CF</u>
<u>SSgA MSCI Emerging Markets Index Fund (Non-Lending)</u>	<u>CF</u>
<u>LSV Emerging Markets Equity</u>	<u>CF</u>
<u>Vanguard US REIT Index Fund</u>	<u>CF</u>
<u>CF - Commingled Fund</u>	
<u>SA - Separate Account</u>	

Attachment B

District of Columbia Retirement Board **Organizational Questionnaire** June 2013

A. Organizational Background

General

1. Please provide the following information regarding your firm:
 - i. Firm Name
 - ii. Contact Name and Title
 - iii. Contact Mailing Address
 - iv. Contact E-mail Address
 - v. Contact Phone and Fax Numbers
 - vi. Firm Website Address
2. Please provide a brief history of the firm, including its year of organization and the ownership structure of the firm, including any parent, affiliated companies or joint ventures.
3. Please list all owners of the firm and their ownership percentages.
4. Describe any ownership changes that have occurred within the last three (3) years, as well as any anticipated changes in ownership, organizational structure, or professional staffing.
5. Please provide the following information related to your firm:
 - a. Number of years' experience in transaction cost analysis consulting to institutional investors (total assets of more than \$100 million).
 - b. Number of years' experience in transaction cost analysis consulting to public pension funds
 - c. Percentage of revenue derived from the following activities (if your firm provides services to plan sponsors and investment managers, please detail the split):
 - i. Transaction cost analysis consulting
 - ii. Other activities (please specify)

Client Base

6. Please provide the following information related to your firm's current clients:
 - a. Total number of clients

- b. List of public pension fund clients, including relationship inception date and services provided
 - c. Percentage breakdown of clients by type (e.g., public pension, corporate pension, endowment, etc.)
7. Please provide the total number and names of any terminated transaction cost analysis consulting clients since January 1, 2010, including reasons for the termination. If you are not allowed to provide the name, please provide the type (e.g., public pension, corporate pension, endowment, etc.)
 8. Please provide the total number and names of any transaction cost analysis consulting clients gained since January 1, 2010. If you are not allowed to provide the name, please provide the type (e.g., public pension, corporate pension, endowment, etc.)

Operations / Compliance

9. Please describe any significant changes to your firm's IT systems, backup/disaster recovery plan and/or document retention policy over the last year?
10. Please describe the current levels of insurance coverage and/or carriers for errors and omissions insurance, D&O insurance and any other fiduciary or professional liability insurance the firm carries.
11. Please indicate whether your firm or any of its principals or employees has been involved in any litigation, arbitration, mediation, or other legal proceedings, or government investigation, or regulatory proceedings involving allegations of fraud, negligence, criminal activity, or breach of fiduciary duty relating to pension consulting activities since January 1, 2010. If so, please provide an explanation for each and indicate the current status.
12. Please indicate whether your firm, its principals, or any affiliate own any part of a money management firm, broker-dealer, or other organization that sells services to institutional investors? If so, identify the firm(s) and describe the service and the relationship to the consulting group.

B. Professional Staff

13. Provide an organizational chart showing name, title, responsibilities, age, educational background, professional background, number of years' experience in the industry, and number of years' tenure with the firm. Please note all professionals dedicated to transaction costs analysis consulting. Also, please include the total number of professional employees and support staff.
14. Please provide the names of all professionals who will be assigned the Board's account, including designated primary and secondary consultants, as well as detailed biographical data for all such individuals. Please include the following information

for each, at a minimum:

- a. Number of years' experience in transaction cost analysis consulting and with your firm,
 - b. List of currently assigned accounts (on a primary and secondary basis), including relationship inception date, services provided, and clients' geographic location,
 - c. Detailed description of prior transaction cost analysis consulting experience, and
 - d. Consultants' home office location.
15. For each of the accounts identified in 14.b above, please provide name, address, contact name, telephone number, and email as references for your firm.
16. Please explain how the team dedicated to the Board's account would function, and the procedures for addressing the Board's account when the primary and secondary consultant(s) are traveling or otherwise unavailable.
17. Please describe any turnover in professional staff since January 1, 2010, including the name and position of each departing employee, as well as the date and reason for the departure.
18. Within your firm, what is the average number of clients per consultant (excluding consultants primarily focused on firm management)?
19. Please provide a brief description of your firm's compensation arrangements for professional staff, including equity ownership, incentive bonus, and vesting information.

Attachment C

**District of Columbia Retirement Board
Request for Proposals for Transaction Cost Analysis
and Transition Management Consulting Services
Solicitation Number: DCRB-13-009
Representations and Warranties**

All firms are required to submit an executed Representations and Warranties statement as an attachment to the proposal response (see Section D *Minimum Qualifications*)

- A. The firm warrants that it meets all of the minimum qualifications as outlined in Section D of this RFP.
- B. The firm warrants that it shall discharge its duties with respect to the Funds in accordance with the requirements of the Reform Act with care, skill, prudence and diligence and in compliance with any other applicable laws. Further, with respect to the foregoing, the Board will rely on the expertise and experience of the firm in all matters related to the Funds as to which services are to be provided by the firm.
- C. It has no interest, financial or otherwise, which might conflict with the performance of responsibilities outlined in this RFP.
- D. The firm warrants that it has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents or examinations required by any government, governmental authority, or other regulatory authority with respect to all actions, responsibilities, and obligations contemplated by an Agreement resulting from this RFP.
- E. The firm warrants that it maintains an errors and omissions insurance policy providing an adequate amount of coverage for negligent acts or omissions and that such coverage will be applicable to the firm's actions, responsibilities, and obligations under a resulting Agreement from this RFP.
- F. The firm warrants that the person submitting this proposal and executing these Representations and Warranties is duly authorized by the firm to submit this proposal and execute these Representations and Warranties.
- G. The firm is not involved in any formal investigation or proceeding by any federal, state or foreign regulatory authority or self-regulatory body.
- H. The firm will disclose any legal and/or regulatory inquiries and/or sanctions against the firm or any individuals employed by the firm.

Name of Firm

Date

Signature

Print Name and Title

Attachment D

DISTRICT OF COLUMBIA RETIREMENT BOARD CONFLICT OF INTEREST GUIDELINES (Excerpts)

4.9. Lock-Out Rule. This rule is intended to protect the integrity of the Board's search and selection procedures for the retention of outside service providers (including, without limitation, investment managers, investment consultants, legal counsel, accountants, custodial bank, auditors, and actuaries). The lock-out rule requires Board members and staff to refrain from intentional, unauthorized contact with such service providers during the search and selection period to avoid the appearance of a conflict in the decision making process. Authorized contact includes communication for: (a) ordinary and necessary business purposes and, (b) matters of public record. Notwithstanding any other provision set forth in these guidelines, the lock-out rule shall be in effect for Board members, staff, and firms upon commencement of the search process.