

**Department of Materials Management  
Division of Procurement  
MONTGOMERY COUNTY PUBLIC SCHOOLS  
45 W. Gude Drive, Suite 3100  
Rockville, Maryland 20850**

**June 28, 2013**

**NOTICE TO BIDDERS**

**The following are questions and responses regarding  
RFP #4342.1, Investment Consultant Services**

**Question 1:** If we are responding as both the General, and Alternative Consultant...may we address any similar or identical questions in the respective questionnaires in the same response?

**Answer:** Yes. Please indicate in the response that it is a duplicative answer.

**Question 2:** Who is your current partner on the actuarial side now...and what is the preferred method of interaction among MCPS, that actuary, and the General Consultant, going forward?

**Answer:** Aon serves as the actuary for the Plan. MCPS relies on input from the general consultant and the actuary to best manage the Plan's assets and liabilities. MCPS facilitates a collaborative relationship between its actuary and general consultant.

**Question 3:** What is the anticipated frequency of the "regularly scheduled meetings" mentioned in the RFP? *(This may be standard meetings, the annual review, and any other ad hoc meetings anticipated.)*

**Answer:** The Board currently meets on a quarterly basis. Over the past several years, the quarterly meetings have been supplemented by one or two special meetings. The quarterly meetings typically last three or four hours and the special meetings typically last one hour. The Board is discussing increasing the frequency its scheduled meetings to five or six per year.

**Question 4:** Does the incumbent currently provide general and alternatives consulting?

**Answer:** Yes, AON Hewitt provides comprehensive investment consulting services across all asset categories.

**Question 5:** How long has the incumbent been working with MCPS?

**Answer:** AON Hewitt (and its predecessor firm) has been the Plan's general consultant since 2004.

**Question 6:** Can you confirm that you plan on having six meetings per year? And is the consultant expected to attend all six meetings in person?

**Answer:** The consultant is expected to attend all regularly scheduled meetings in person and participate telephonically (at a minimum) in special meetings. See Question 3 for the frequency of meetings.

**Question 7:** On average, how many “ad hoc” meetings take place per calendar year? How many times in a typical calendar year, besides regular meetings, does the MCPS Board of Investment Trustees meet with its Consultant?

**Answer:** Over the past several years, the Board has had one or two special meetings – see Question 3. Staff has frequent interactions and meetings with the Plan’s consultant.

**Question 8:** Are there any strategic plans to change the composition of the alternatives portfolio in the near future, 12 to 36 months?

**Answer:** The Board increased its target allocation to alternatives in December 2011 from 10% to 25% of total Plan assets. The Board is in the process of deploying capital towards the target alternatives allocation. The Plan has no set target allocations to specific strategies within its alternative portfolio.

**Question 9:** Is there an Investment Policy Statement for the OPEB Trust?

**Answer:** Yes, see attached.

**Question 10:** When was the last Asset/Liability study conducted? Is there an anticipated due date for the next Asset/Liability study?

**Answer:** An Asset/Liability study was completed in May 2013. The Board typically conducts an Asset/Liability study on a biennial basis.

**Question 11:** Does MCPS have an example of its Pension Plan’s Quarterly Risk Report they can share with bidders?

**Answer:** The Board, staff and the consultant are in the process of refining a quarterly risk report.

**Question 12:** Who is the custodian for the Pension Plan? Is the same custodian employed on the OPEB Trust?

**Answer:** BNY Mellon is the Plan’s custodian. OPEB assets are held at Vanguard.

**Question 13:** Can bidders know the amount of assets each current MCPS/OPEB Trust investment manager invests on behalf of both entities?

**Answer:** Yes, see attached.

#### General Questions 14-15

**Question 14:** What is the reason for conducting a search for an investment advisor for the plan?

**Answer:** The contract with the incumbent expires at the end of 2013.

**Question 15:** Is this a required search?

**Answer:** The search is not required by law.



**Investment Staff Question 16**

**Question 16:** Please describe the number, role and composition of any internal investment professionals currently responsible for the alternative investments.

**Answer:** Staff consists of a CIO and an investment analyst (who is scheduled to join MCPS in August 2013). Staff is involved with all asset categories and collaborates with the investment consultant to administer and manage the Plan assets in a manner that is consistent with the Investment Policy Statement and the fiduciary duty of the Board. The Board expects Staff and the investment consultant to maintain their independence and act in the best interest of the Plan.

**Governance Question 17**

**Question 17:** How often does the MCPS Board of Investment Trustees meet?

**Answer:** See Question 3.

**The MCPS Plan Question 18-20**

**Question 18:** Is the plan currently active, soft frozen, or hard frozen?

**Answer:** The Plan is active. As of June 30, 2012, the Plan had a total participant count of 37,609 which consisted of: (1) Active Participants - 21,804; (2) Terminated Vested Participants - 4,199; and, (3) Retired Participants - 11,606.

**Question 19:** What is the funded status of the plan?

**Answer:** As of June 30, 2012, the Plan was 68.8% funded on an actuarial basis.

**Question 20:** Is the plan regulated by ERISA?

**Answer:** No.

**The Alternative Assets Portfolio Questions 21-25**

**Question 21:** We understand there is an overall target allocation to alternatives of 25%. Are there any specific targets or ranges for any of the sub-asset classes or sub-strategies (i.e., real estate, private equity, hedge funds, commodities, infrastructure, natural resources, or absolute return)?

**Answer:** No, there are no set targets for sub-asset classes or sub-strategies.

**Question 22:** What are the current allocations to each of the sub-asset classes or sub-strategies?

**Answer:** As of March 2013, the Plan's alternatives allocation was: 7.2% real estate (~\$85M); 6.2% hedge funds (~\$73M); 4.1% commodities (~\$49M); 2.3% private equity (~\$27M); and, 1.1% bank loans (~\$13M).

**Question 23:** What is the current total valuation (\$) and allocation (% of total portfolio) for the alternatives portfolio?

**Answer:** See Question 13 and Question 22.

**Question 24:** Exhibit D provides a listing of managers and their associated investment strategy. Can you please provide the names and vintage years (as appropriate) for the specific funds that the Plan is currently invested in for each of the managers and the most recent quarterly valuation for each of these investments?

**Answer:** See Question 13.

**Question 25:** What is the planned or anticipated annual commitment to private investments for each of the next three years?

**Answer:** **There is no set commitment pace at this time to private equity managers. The Board continues to evaluate its current alternatives portfolio and prospective strategies and managers.**

#### RFP Questions 26-28b

**Question 26:** Sample Reports – Question (h) and (i) under Monitoring, Performance Measurement and Reporting ask for samples of reports. Is it okay to provide these sample reports as separate attachments, noting your statement that “attached materials would be viewed negatively”.

**Answer:** **Yes, sample reports can be attached. Please note all attachments in your answers.**

**Question 27:** References – As a courtesy to our existing clients, we typically provide references at a later stage in the search process. Would our response be penalized in any way were we to provide MCPS with references at the next stage of the process (assuming we advance to the next stage)?

**Answer:** **References can be provided at a later stage in the process. References are, however, a critical component of the Board’s decision. The Board will not retain a consultant without sufficient reference checks.**

**Question 28:** Fees – Our standard fee schedule for alternative assets is basis point on assets-based. Does MCPS require a fix fee for each of the three years of the anticipated contract?

**Answer:** **MCPS prefers a fixed fee construct for its alternatives consultant as indicated in the RFP.**

**Question 28a:** If so, MCPS amenable to a private discussion related to our fee schedule to discuss assumptions and options for providing a fixed fee quote rather than a basis-point on assets fee quote?

**Answer:** **The Board encourages respondents to proffer their best price as it is a key component of the Board’s evaluation. Moreover, all respondents are encouraged to structure their quote in a fixed fee format.**

**Question 29:** Is the RFP intended to be a due diligence process, or is the RFP intended to result in a change in consultants?

**Answer:** **The RFP is not a due diligence exercise.**



**Question 29a:** Is the current consultant being considered as part of this process?

**Answer:** Yes, the incumbent is invited to participate in the RFP.

**Question 30:** What are the annual fees for the existing contract that the Fund is paying to its current consultant?

**Answer:** \$410,000.

**Question 30a:** Are there project-related fees associated with the current arrangement that are not part of the base fee?

**Answer:** Yes, there are fees for incremental manager searches above 3 per year for managers or strategies that are new to the general consultant. Searches for managers on whom the consultant has previously performed diligence are included in the base fee. Incremental searches are priced between \$35,000 and \$45,000 per search. The base fee for the OPEB Trust is \$3,000 per year. This fee includes analysis of the market environment, capital market assumptions and performance reporting. The incumbent charges incremental fees for passive manager searches (\$5,000-\$8,000 per search), active long-only managers (\$18,000-\$50,000 per search) and asset allocation and manager structure analysis (\$50,000-\$60,000). All increment funding for the OPEB liability are made to a different plan managed by a different staff.

**Question 31:** In your review process, what investment consulting firm characteristics will you be emphasizing?

**Answer:** MCPS will be evaluating all characteristics and qualities detailed in the RFP.

**Question 32:** Being a closely-held Limited Liability Company (LLC), it has been our policy since the inception of the firm not to disclose our financial data unless and until NEPC's confidentiality agreement has been signed. We have provided a copy of the agreement and will supply our financial data upon receipt of a signed document. We are also happy to share our audited financials for review in a private setting so that they do not become part of the public record.

**Answer:** See Part B, page 2, Treatment of Technical Data in Proposals, "Technical data contained in pages \_\_ of this proposal shall not be used or disclosed, except for evaluation purposes." Please provide information you are willing to disclose that attests to your firm's financial viability.

**Please provide information you are willing to disclose that attests to your firm's financial viability.**

**Question 33:** Do you anticipate making any changes to the asset allocation of the fund?

**Answer:** The Board looks at its strategic asset allocation on an annual basis.

**Question 33a:** Are you considering any new asset classes?

**Answer:** The Board continually looks at new asset categories and investment strategies.

**Question 34:** What issues are under current consideration by the staff and/or committee?



**Answer:** The Board and Staff are looking at incremental alternatives investment strategies. Other areas of consideration include risk factor based capital allocation and global fixed income.

**Question 34a:** What strategic decisions are currently pending that the new consultant, should you determine to make a change, would likely become involved with?

**Answer:** The consultant(s) engaged by MCPS would be involved in all strategic decisions beginning January 1, 2014.

**Question 35:** Our organization does not charge clients on a time and charges basis. Therefore, we do not track client billable hours and hourly rates. We typically charge a retainer fee and commit whatever time is necessary to provide all of the services covered under the retainer. Will it present a problem as you evaluate our proposal if we do not include hourly rates and itemized costs?

**Answer:** No, this does not present an issue so long as the costs for all services are accounted for and detailed in the response.

**Question 36:** Are multiple points of contact required if a firm is selected as both the general and alternatives consultant? Or is it sufficient enough to have one main point of contact that would manage the entire process and make available any and all necessary resources as warranted?

**Answer:** A single client relationship manager is preferable in the event that MCPS retains one firm as its general and alternatives consultant. The Board, however, would like to have detailed information about the client relationship team that would assigned to MCPS.

**Question 37:** Regarding the separation of the Technical and Business sections, would you like two separate booklets or would simply separating the two by sections in one booklet suffice?

**Answer:** Two separate booklets.

**Question 38:** Given that the OPEB Trust is managed by a separate Board and Staff we are assuming that this RFP does not cover that plan. Is this correct?

**Answer:** This RFP does cover the current OPEB Trust. The MCPS OPEB Trust has about \$40M in assets that are managed by the Board and Staff in consultation with the consultant. Future fundings to offset the MCPS OPEB liability will be made to a different trust with a different board and staff.

**Question 39:** On the top of page 6 in Part A, it states that "For an offeror to be eligible to submit a proposal, it must meet the requirements and indicate how the requirements are met on the Questionnaire" Is there a specific list of minimum requirements that we can review and respond to? We did not see a list in the documents we downloaded from your website.

**Answer:** This paragraph will be deleted, see Erratum 4.

**Question 40:** For the 25 % allocation to Alternatives, could you provide a breakdown of the target and actual asset allocation for the underlying strategies? (i.e. % Real Estate, % Hedge Funds, % Private Equity, etc.).

**Answer:** See Questions 13, 21 and 22.

**Question 41:** On page 3 of Part A, sections 3.1.8 and 3.1.10 are almost identical. Could you elaborate the differences between the 'Plan's investments' and 'the Plan'?

**Answer:** 3.1.10. will be deleted, see Erratum 4.

**Question 42a:** From the IPS we have concluded that the long only investments (BlackRock and State Street) are passively managed. Can you confirm this for us?

**Answer:** Yes, the Plan has investments in index funds managed by BlackRock and State Street.

**Question 42b:** Also, can you provide more information on the underlying products. For example, we are assuming that the BlackRock & State Street equity products are ACWI?

**Answer:** Yes, MSCI ACWI IMI is the underlying equity index benchmark.

**Question 42c:** Are these passive or enhanced index products?

**Answer:** These are passive index funds with securities lending.

**Question 42d:** Also, as we are not aware of the reason for indexation of the long only portfolio, could you indicate whether this will continue or whether active would be considered in asset classes where it might be beneficial?

**Answer:** The Board uses index funds for its Beta portfolio as the majority of active long-only equity and bond managers in most categories lagged comparable benchmarks (according to the SPIVA Scorecard). Notwithstanding this data, the Board revisits its strategic asset allocation on an annual basis. The Board continually looks at the capital markets, investment strategies and academic research on portfolio theory. The Board puts its fiduciary duty first and will evaluate changes to its investment policy should a change be warranted.

**Question 43:** In regards to the BlackRock Real Estate fund, could you provide the fund name and the duration you've been invested in it?

**Answer:** Since late 2007, the Plan has had an investment in the BlackRock Granite fund. See Question 13.

**Question 44:** What specific ING strategies are you invested in?

**Answer:** The Plan has an investment in the ING Core Fixed Income fund. See Question 13.

**Question 45:** As a privately owned firm, we do not publicly disclose financial information, which we consider confidential in nature. However we do not want our almost 40-year history of confidentiality to preclude our consideration and will do our utmost to satisfy all your due



diligence requirements. We can provide Audited Financial Statements under separate cover with a signed confidentiality non-disclosure agreement. A confidentiality non-disclosure document is attached for your review and signature. When returned we will forward the audited financial statements directly to you. If desired, this can be further discussed directly with our Chief Financial Officer, Susan Taylor, at (415)974-5060.

**Answer:** See Question 32 See Part B, page 2, Treatment of Technical Data in Proposals, "Technical data contained in pages \_\_\_ of this proposal shall not be used or disclosed, except for evaluation purposes." Please provide information you are willing to disclose that attests to your firm's financial viability.

**Question 46a:** If the RFP is to rehire or replace your current general investment consultant, what prompted the search?

**Answer:** See Questions 14 and 15.

**Question 46b:** Is the incumbent consulting firm allowed or encouraged to rebid?

**Answer:** Yes.

**Question 46c:** How long has the incumbent consultant been with your plan?

**Answer:** See Question 5.

**Question 47:** Who is/are the current specialty consulting firms being used?

**Answer:** Aon Hewitt provides all investment consulting services for the Plan.

**Question 48:** What is the annual fee being paid to the current consultant(s)?

**Answer:** See Question 30.

**Question 49:** Do you anticipate making any changes to the asset allocation of the fund?

**Answer:** See Question 33.

**Question 49a:** Are you considering any new asset classes?

**Answer:** See Question 33a.

**Question 50:** What is the most important investment issue your fund is currently facing?

**Answer:** The most important investment issue is achieving the actuarial return target (7.5%) without exposing Plan assets to excessive risk.

**Question 51:** What is the funding ratio of the plan?

**Answer:** See Question 19.



**Question 52:** Please provide a copy of your 2013/2014 meeting schedule in which the general investment consultant would be expected to attend. Please include workshop dates in the schedule. If the schedule would be different for the alternative consultant, please provide the meeting and workshop schedule.

**Answer:** **The 2014 calendar is yet to be finalized. The Board is scheduled to meet on September 13, 2013 and November 8, 2013.**

**Question 53:** When was the last asset liability study conducted?

**Answer:** **See Question 10.**

**Question 54:** What strategic decisions are currently pending with the current consultant that the new consultant would likely become involved with?

**Answer:** **See Question 34.**

**Question 55:** Are you considering separate consultants for each mandate (general consultant and alternatives)? Or would you consider on consultant for both?

**Answer:** **The Board is evaluating a single consultant for both mandates and two separate consultants. The Board will make a decision as to the preferred arrangement based upon the responses to the RFP.**

**Question 55a:** Are both of these mandates non-discretionary?

**Answer:** **Yes, the mandates are non-discretionary.**

**Question 55b:** Are you considering an outsourced CIO program?

**Answer:** **The Plan is not evaluating outsourced CIO programs.**

**Question 56:** Please provide a copy of your current Manager Roster and their market values. To best answer the question regarding opinions/ ratings on the alternative investment managers, could you please provide a detail roster of the investments including type of investment, vintage year, commitment (target, funded, and unfunded)?

**Answer:** **See Question 13.**

**Question 57:** Do you have an investment staff? If so, how many employees are there on staff?

**Answer:** **See Question 16.**

**Question 57a:** How do you anticipate the consultant and the investment staff relationship working?

**Answer:** **The consultant and Staff have to form a close partnership to help the Board fulfill its fiduciary duty. Both parties, however, must remain independent and work to maximize risk adjusted returns for the Plan.**

**Question 58:** How many public markets and alternative searches have you done on average per year in the last three years?

**Answer:** The strategic asset allocation changed in December 2011. Since that time, the Plan has added 17 new strategies with 13 investment managers.

**Question 58a:** How many public market and alternative investments searches do you expect to do on average per year in the next three years?

**Answer:** The Board is focused on best positioning the Plan. The Board will do what is necessary to maximize its strategic asset allocation. Specifically, the Board does not focus on the number of searches. Rather, its focus is on deploying capital in a prudent and measured manner that generates returns in excess of the actuarial return assumption while minimizing risk.

**Question 59:** How much capital do you plan to commit to individual alternative investments this year?

**Answer:** The alternatives portfolio is below its target asset allocation. As of March 2013, the allocation to alternatives was approximately 21% to total assets. The Board will look to prudently evaluate investment strategies and commit capital after performing diligence that brings the alternatives allocation to the long term target.

**Question 60:** How many performance review reports for the alternatives program are required per year?

**Answer:** The Board looks at performance data on the Plan and individual managers on a quarterly basis. The Board looks for a more detailed review of each manager on an annual basis.

**Question 61:** Does the current alternatives consultant provide back office support?

**Answer:** No. BNY Mellon provides limited back office support for alternatives. Specifically, BNY Mellon helps the Plan with capital calls and distributions and FX. The general consultant provides performance and risk reports to the Board as well as investment manager research and updates.

**Question 61a:** Does the current alternatives consultant provide cash flow coordination?

**Answer:** No, Staff works with BNY Mellon to coordinate cash flows.

**Question 61b:** Does MCPS utilize a custodian or other third party to manage cash flow information, calculate returns or investment positions?

**Answer:** MCPS works with both its custodian and consultant to calculate returns and manage cash flow and investment position information. The Board is open to new solutions to evaluate positions on a total Plan level.

**Question 61c:** Is it anticipated that the alternatives consultant will coordinate cash flows or does a third party perform this?

**Answer:** See Questions 61, 61a and 61b.



**Question 62:** How would the new consultant obtain access to the historical cash flows, underlying portfolio company information, fees and other data in order to fulfill reporting requirements?

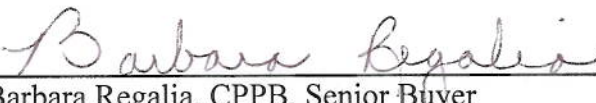
**Answer:** The new consultant(s) would work with Staff, the custodian and the incumbent consultant to properly transition the account and all necessary information.

**Question 63:** Do you expect to change the allocation to Alternative Investments in the foreseeable future?

**Answer:** See Question 33.

**Question 63a:** Are there any existing or pending restrictions on Alternative Investments?

**Answer:** All investments are subject to the Investment Policy Statement.

  
\_\_\_\_\_  
Barbara Regalia, CPPB, Senior Buyer  
Division of Procurement

BR

Please indicate your acceptance of this notice by signing below and returning with your RFP or under separate cover.

Accepted: \_\_\_\_\_  
Name and Title

Name of Company \_\_\_\_\_





Statement of Investment Policy for  
**Montgomery County Public Schools**  
OPEB Plan Trust

(Restated September 2012)





## I. PURPOSE

Montgomery County Public Schools ("MCPS") maintain certain programs to provide post-employment welfare benefits for eligible employees (collectively, the "OPEB Plan"). The Board of Investment Trustees ("the Board") recognizes its fiduciary responsibility to invest OPEB Plan assets prudently and solely in the interest of plan participants and their beneficiaries.

The purpose of this Statement of Investment Policy is to:

- Guide the Board in prudently and effectively supervising, monitoring, and evaluating the investment activities of the OPEB Plan,
- Set investment objectives and establish performance criteria against which overall OPEB Plan results can be evaluated,
- Define the responsibilities of the Board its investment managers and vendors, and
- Encourage frequent and effective communication between the investment managers, vendors and the Board.

This Statement of Investment Policy will be reviewed annually and all changes will be approved by the Board.

Commingled investment funds cannot customize investment policies and guidelines to specific needs of individual clients. Therefore, commingled investment vehicles are exempt from the specific investment policies and restrictions specified herein. The MCPS OPEB Plan has determined that the investment practices of the commingled fund(s) are consistent with the spirit of this Statement of Investment Policy, and are not significantly different.

## II. STATEMENT OF OBJECTIVES

The Board recognizes that investment results are the key factor in achieving funding objectives, while reliance on contributions is a secondary factor. The OPEB Plan seeks to achieve the following investment objectives:

- To have the ability to pay all benefits and expenses when due;
- To meet or exceed the actuarial earnings assumption over the long term;
- To control costs of administering the OPEB Plan and managing OPEB Plan assets;
- To reduce risk and mitigate potential consequences from volatility in the capital markets through prudent asset allocation decision;
- To achieve a return on assets that tracks that of a baseline portfolio consisting of allocated investments in the following major market indices as follows:

MSCI U.S. Broad Market Index	40%
Barclays Aggregate Bond Index	20%
FTSE All World Ex- U.S. Index	40%
Cash	0%

### **III. INVESTMENT POLICY GUIDELINES**

#### **A. Equity**

The objective of the equity portion of OPEB Plan assets is to achieve a positive real rate of return at acceptable risk levels. Emphasis is on total return and favors capital growth over current income. The OPEB Plan may invest in equities subject to the asset allocation ranges established by the Board and set forth in this Statement of Investment Policy. The following guidelines apply to the OPEB Plan's investment in equity assets:

Type – Equity investment shall be in the publicly traded securities of companies listed on the commonly used exchanges in the country of incorporation or a major U.S. stock exchange.

Diversification – Equity investment managers are expected to provide adequate investment diversification of OPEB Plan assets under management.

Market Timing - Equity managers shall have the discretion to shift assets between equity and cash equivalents when they deem appropriate. The Board must be informed in the event an individual investment manager chooses to increase the cash equivalent position beyond 10% of the market value of assets in the investment manager's account.

Marketability / Liquidity – Equity investment managers are expected to ensure adequate marketability of investments under management.

#### **B. Fixed-Income**

The objective of the fixed-income portion of OPEB Plan assets is to provide diversification benefits and to achieve a positive real rate of return at acceptable risk levels. The following guidelines apply to the OPEB Plan's investment in fixed-income assets:

Type - Fixed-income investments may include U.S. Government and Agency obligations, securities issued or guaranteed by foreign governments, marketable corporate bonds, and preferred stocks as deemed appropriate by the investment manager.

Diversification - Not more than 10% of the market value of the individual investment manager's account shall be invested in securities of any one issuer, except U.S. Government and Agency obligations. Not more than 20% shall be invested in non-dollar denominated bonds.

Quality - Fixed-income investments shall be made primarily in issues rated "A" or better by Moody's and "A" or better by Standard & Poor's rating agencies. Investment in



lower grade bonds will be permitted on an opportunistic basis, however, holdings of bonds rated "BAA" or lower by Moody's and "BBB" or lower by Standard & Poor's will be limited to 20 % of the fixed-income portfolio. The average quality of an individual investment manager's account must be A or higher.

Duration – The average weighted effective duration of portfolio security holdings shall not vary from that of the Barclays Aggregate Bond Index by more than +/- 20%.

Marketability/Liquidity – Fixed income investment managers are expected to invest in securities that have adequate marketability.

### **C. Cash Equivalents**

Cash equivalent investment of OPEB Plan assets may occur at the investment manager's discretion. Such investments should be prudently diversified and may include:

Any instrument issued by, guaranteed by, or insured by the US Government, Agencies, or other full faith instruments;

Commercial paper issued by U.S. or non-U.S. corporations which is rated both "P-1" and "A-1" by Moody's and Standard & Poor's rating agencies, respectively;

Certificates of deposit, banker's acceptances, or other such irrevocable primary obligations;

Commingled, short-term cash reserve funds managed generally in accordance with the principles set forth above.

The sum on deposit at any one bank or trust company may not exceed twenty-five (25) percent of the paid-in capital and surplus of that bank or trust company.

### **D. Derivative Securities**

Derivative securities, including futures and options, should only be used to hedge market or currency risk exposure or to minimize costs associated with investments in specific countries or securities. At no time will derivatives be used to leverage exposure to specific markets or investments.

### **E. Prohibited Investments**

Montgomery County statutes prohibit investment in Montgomery County and County-related bonds. County statutes also require that real estate investments be made in pooled vehicles in which no more than 10 percent of the pool is invested in real estate located in Montgomery County.

#### IV. ASSET ALLOCATION

The Board recognizes that the most significant decision affecting the OPEB Plan's ability to meet its stated investment objectives is the asset allocation decision. After review of the long-term performance characteristics of various asset classes and careful consideration of the OPEB Plan's investment objectives and risk tolerance, the following guidelines are established for the allocation of OPEB Plan assets:

<u>Asset Class</u>	<u>Range</u>	<u>Long Term Target</u>
U.S. Equity	35 to 45%	40%
Fixed Income	15 to 25%	20%
Non-U.S. Equity	35 to 45%	40%
Cash	0 to 1%	0%

If investments in any asset class exceed the permissible range, the Board will partially (typically ½ of the distribution range) rebalance back to the target allocation.

The Board will review and revise the asset allocation guidelines from time to time based on analysis of the OPEB Plan's liability structure and expected market conditions over the upcoming five to ten year time horizon. The asset allocation guidelines will be designated in writing and will include acceptable ranges as well as long-term targets.

#### VI. DELEGATION OF RESPONSIBILITIES

##### A. Responsibilities of the Board

The Board recognizes its fiduciary responsibility to participants and their beneficiaries. The specific duties and responsibilities of the Board include:

- Establishing sound and achievable investment objectives;
- Developing sound and consistent investment policy guidelines;
- Communicating the major duties and responsibilities of those accountable for achieving investment results;
- Selecting and monitoring the performance of investment manager(s), the consultant, and other vendors as applicable;
- Monitoring and evaluating results to assure that policy guidelines are being adhered to and Plan objectives are being met.

##### B. Responsibilities of the Investment Manager(s)

The responsibilities of each investment manager retained by the Board include the following:



- Be (1) registered as an investment advisor under the Investment Advisors Act of 1940, (2) a bank, or (3) an insurance company qualified to manage, acquire, or dispose of assets of the OPEB Plan under the laws of the State of Maryland.
- Exercise complete investment discretion subject to the guidelines and restrictions outlined in this Statement of Investment Policy and in any written investment management agreement between the Board and the manager. Such discretion includes decisions to buy, hold, or sell securities in amounts and proportions reflective of the manager's current investment strategy.
- Investment manager may select any broker or dealer that it reasonably believes will provide best execution.
- Report all significant or material matters pertaining to the management of OPEB Plan assets including changes effecting the business structure or organization, and professional personnel.
- On a quarterly or more frequent basis, as requested, provide written reports on portfolio activity and valuations at market, and on current investment strategy.
- Initiate written communication to the Board regarding changes to this Statement of Investment Policy, if in the opinion of the investment manager such changes are in the best interest of the OPEB Plan.

As fiduciary, the investment manager is expected to diversify the portfolio under their management to minimize the risk of large losses. The manager is expected to invest OPEB Plan assets with care, skill, prudence, and due diligence under the circumstances then prevailing 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 such aims.

#### **C. Responsibilities of the Consultant**

The responsibilities of the Consultant retained by the Board shall include the following:

- Assist the Board in its duties regarding the development, oversight and general ongoing implementation of the investment objectives and guidelines;
- Assist the Board in the selection of investment managers, the custodian and such other service providers as may be required for the general management of the OPEB Plan;
- Assist the Board in its duties regarding the overall evaluation of the investment of OPEB Plan assets by reporting formally, if requested, at least quarterly on investment results; and
- Keep the Board informed of market developments that may impact the management of the investment of OPEB Plan assets.

#### **D. Responsibilities of the Custodian**

The custodian may be retained by the OPEB Plan and would be charged with the responsibility for safekeeping securities, collections and disbursement, and periodic accounting statements.

## **VII. PROXY VOTING**

Proxy voting rights are an asset of the OPEB Plan. The Board recognizes the responsibility to ensure those rights are exercised in the best interest of OPEB Plan participants and their beneficiaries to the extent they are available. The proxy voting decision is usually secondary to the decision to own a security for investment purposes.

The Board will review and consider proxy voting guidelines specified in investment management contracts consistent with the best interests of OPEB Plan participants and beneficiaries. When feasible, investment management contracts should require the investment manager to report votes annually to the Board. In the event of any conflict of interest or potential conflict of interest with respect to any proxy vote, the investment manager should be required to notify the Board and the Board shall vote or appoint a third party to vote the proxy.

The OPEB Plan may from time to time hold investments in commingled or mutual funds (Funds). The Plan may periodically receive proxies from these Funds which allow the OPEB Plan to vote on various issues including but not limited to election of directors or Board, investment policies, fees, Fund structure, Fund liquidation or termination. All such proxies shall be reviewed by the Board, its Chairman or a MCPS staff member to whom responsibility for review has been delegated. In addition, the Board may retain a consultant or outside proxy voting service to make recommendations regarding the voting of these proxies.

Either the Board or the Chairman may determine how, and if, the proxy will be voted based on analysis of recommendations from its consultant, outside proxy voting services or MCPS staff member. All proxy votes by the Chairman will be reported to the Board at its next regularly scheduled meeting.

Proxies will be voted by the Board or the Chairman taking into consideration the financial interests of the Plan and in a manner which maximizes the value of the OPEB Plan's investment in the Fund. It is expected that in most cases proxies will be voted in support of the Fund's management regarding routine business, except where doing so would negatively impact the long-term value of the OPEB Plan's investment in the Fund. Non-routine matters will require more consideration and review of all relevant facts and circumstances. Matters relating to social, human rights, environmental and similar matters will be considered in the context of whether they have a demonstrable positive economic impact on the OPEB Plan's investment in the Fund.

## **VII. EVALUATION AND REVIEW - Performance Standards**

The objective of the evaluation and review process is to monitor the progress of the OPEB Plan assets in achieving the overall investment objectives. Particular attention will be directed toward determining whether:



- The total fund is achieving its stated objectives;
- Investment managers are performing satisfactorily in relation to the objectives set forth in this Statement;
- Investment managers are adhering to the guidelines set forth herein and in any applicable investment management agreement;
- Investment managers are adhering to their stated philosophy and style; and
- The overall policies and objectives continue to be appropriate, reasonable, and achievable.

### **Total Fund**

Investment results are expected to track the return of a policy level benchmark composed as described in Section II, Statement of Objectives net of fees.

### **U.S. Equity**

The return of the total U.S. equity allocation is expected to track the MSCI U.S. Broad Market Index net of fees.

### **Fixed-Income**

The return of the total fixed income allocation is expected to track the Barclays Aggregate Bond Index net of fees.

### **Non-U.S. Equity**

The total non-U.S. equity allocation is expected to track the FTSE All World Ex-U.S. Index net of fees.





**Montgomery County Public Schools Retirement System Trust**  
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**Question 13 - Investment Detail as of March 31, 2013**

Investment Manager	Fund/Strategy	Inception/Vintage	Market Value (\$)	% of Portfolio
<i>Global Equity</i>				
BlackRock	MSCI ACWI IMI Index	Mar-12	307,983,731	
State Street	MSCI ACWI IMI Index	Mar-12	<u>306,533,920</u>	
			614,517,651	52.4%
<i>Investment Grade Fixed Income</i>				
BlackRock	US Debt Index Fund	Mar-12	113,011,733	
ING	Core Fixed Income	Sep-99	60,054,719	
State Street	US Debt Index Fund	Mar-12	<u>114,854,373</u>	
			287,920,825	24.5%
<i>Alternatives - Bank Loans</i>				
Eaton Vance	Floating Rate Fund	Mar-13	<u>13,110,346</u>	
			13,110,346	1.1%
<i>Alternatives - Commodities</i>				
Black River	Black River Commodity Trading Fund	Feb-13	24,556,125	
CoreCommodity	Founders I	Feb-13	<u>23,990,018</u>	
			48,546,143	4.1%
<i>Alternatives - Hedge Funds</i>				
Anchorage Capital	Anchorage Capital Partners	Nov-11	15,204,575	
Blue Crest	All-Blue	Nov-11	10,840,143	
Brahman Partners	Brahman Partners III	Nov-11	8,797,830	
Highline Capital	Highline Capital	Mar-12	5,287,020	
Owl Creek	Owl Creek II	Nov-11	5,698,885	
Och Ziff	OZ Domestic Partners II	Oct-11	11,796,517	
York Capital	York Credit Opportunities	Nov-11	<u>14,887,336</u>	
			72,512,306	6.2%
<i>Alternatives - Private Equity</i>				
Golub Capital	Golub Capital Partners VIII	2012	7,151,463	
HarbourVest	HarbourVest V	2005	4,078,118	
HarbourVest	HarbourVest VIII - Cayman Buyout Fund	2006	3,937,335	
HarbourVest	HarbourVest VIII - Cayman Mezzanine Fund	2006	740,821	
HarbourVest	HarbourVest VIII - Cayman Venture Fund	2006	3,728,615	
HarbourVest	Dover Street VII	2007	3,893,089	
HarbourVest	HarbourVest VI	2008	2,506,405	
RCP Capital	RCP Fund VII	2010	<u>1,368,889</u>	
			27,404,735	2.3%
<i>Alternatives - Real Estate</i>				
BlackRock	Granite Fund	Dec-07	42,188,706	
UBS	Trumbull Property Fund	Dec-99	<u>42,813,844</u>	
			85,002,550	7.2%
<i>Cash</i>				
ING	Disbursement Account		11,495,731	
BNY Mellon	Cash Account		8,492,831	
BNY Mellon	Beta Overlay Collateral		<u>4,647,374</u>	
			24,635,936	2.1%
<b>Total</b>			<b>1,173,650,492</b>	<b>100%</b>

Montgomery County Public Schools OPEB Trust  
RFP 4342.1  
Question 13 - Investment Detail as of March 31, 2013

Investment Manager	Fund/Strategy	Inception/Vintage	Market Value (\$)	% of Portfolio
<i>Global Equity</i>				
Vanguard	Total Stock Market Index	Sep-07	18,119,861	
Vanguard	FTSE All-World ex-US Index	Sep-07	<u>16,862,093</u>	
			34,981,954	80.9%
<i>Investment Grade Fixed Income</i>				
Vanguard	Total Bond Market Index	Sep-07	<u>8,237,285</u>	
			8,237,285	19.1%
<b>Total</b>			<b>43,219,239</b>	<b>100%</b>