

POLICE AND FIRE RETIREMENT SYSTEM OF THE
CITY OF DETROIT



Request for Proposals

Alternative Investment Consultant
Investment Advisory Services
Performance Measurement Services

February 1, 2010

BACKGROUND INFORMATION

Overview

The Police and Fire Retirement System of the City of Detroit (DPFRS) is seeking proposals from qualified firms to provide alternative investment consulting services. This is a new assignment within the investment management of DPFRS.

Alternative investment consulting services are intended to include (a) investment advisory, and (b) performance measurement. DPFRS intends to separately evaluate proposals for (a) investment advisory and (b) performance measurement. DPFRS may award (a) and (b) to one provider or may elect to award (a) and (b) to separate providers.

Any references to assets under management, member population, staff composition and the like are as of December 31, 2009 unless explicitly stated to the contrary. All amounts stated are approximate.

Form of Responses

Respondents will be expected to answer each and every one of the questions stated in the attached Questionnaire. If a particular question does not apply, then a response of "N/A" should be entered. DPFRS will reserve the right to reject those responses which DPFRS, in its sole and absolute discretion, deems to be inadequate. Responses may refer to standard published marketing or informational materials so long as the reference is clearly stated and the materials referred to are separately attached.

Respondents will be required to provide one (1) original including all attachments and fifteen (15) copies including all attachments of their response to this RFP. Responses must be submitted with a transmittal letter signed by an authorized officer of the respondent certifying that all representations made in the response are true and accurate.

Due Date for Responses, Acknowledgement of Receipt

Responses must be received at the offices of DPFRS prior to 2:00 PM eastern standard time on Monday March 1, 2010. Timely submission is the sole responsibility of the respondent. Late submissions will only be considered if an explicit exception is approved by the Board of Trustees. Responses should be submitted to

Ms. Cynthia Thomas
Assistant Executive Secretary
Police and Fire Retirement System of the City of Detroit
2 Woodward Avenue, Room 908
Detroit, Michigan 48226
cathomas@rscd.org

DPFRS will affirmatively acknowledge receipt of each response via fax or e-mail within 24 hours. Respondents must supply the appropriate e-mail address and/or fax number to receive the acknowledgement.

Questions, Requests for Additional Information

Prospective respondents are encouraged to contact DPFRS to ask any questions or to obtain additional information which will improve the quality and clarity of their response to this RFP. All questions and requests for information should be directed to

Mr. Richard Huddleston
Police and Fire Retirement System of the City of Detroit
2 Woodward Avenue, Room 908
Detroit, Michigan 48226
(313) 224-4245
rlhuddleston@rscd.org

Term of Agreement

DPFRS intends to enter into an agreement for a term of not less than two nor more than five years.

Schedule of Evaluation, Timing of Award and Implementation

The executive staff of DPFRS will review the submission of each respondent and deliver a report to the Board of Trustees at its next regularly scheduled Board meeting following the due date. The Board will invite the most qualified respondents to appear for an interview before the Board of Trustees. The

successful bidder is expected to be identified by April 30, 2010 with the objective of completing all contractual arrangements shortly thereafter.

Scope of Services, Investment Advisory

The successful bidder will be expected to provide expert investment advice to the Board of Trustees with respect to the portfolio construction and asset management of the Board's alternative investments. Such services are expected to include but not necessarily be limited to the following:

- Provide recommendations as to the distribution of assets among the various sectors (private equity, hedge funds, etc.)
- Provide trustee and staff education and training with respect to alternative investments
- Analyze new alternative asset investment ideas and proposals
- Perform manager due diligence
- Perform manager searches
- Develop investment guidelines for the portfolio as a whole and individual managers and investments
- Monitor each alternative investment and provide a detailed written report no less frequently than quarterly with an assessment of each alternative investment
- Monitor the compliance of the portfolio with asset allocation policies, investment objectives and applicable state statutes
- Provide a quarterly report as to the current and projected liquidity of each investment and the portfolio as a whole
- Review manager fee calculations, especially as it relates to the determination of carried interest

- Attend Board meetings at least quarterly at which time the monitoring report of the portfolio and each investment will be presented
- Provide a quarterly GAAP compliant valuation of each alternative investment
- Be available to the Board and staff to answer questions and provide information on an as-needed basis
- Review proposed contractual documents such as private placement memoranda, operating agreements, fund prospectus, terms sheets and the like
- Rigorous due diligence of new alternative investment proposals and managers
- Monitor compliance of managers to the investment guidelines and contractual documents
- Periodically perform manager reviews through an on-site manager visit
- Special projects as the Board may require from time to time

Scope of Services, Performance Measurement

The successful bidder will be expected to appear before the Board of Trustees on a quarterly basis to present the investment performance of the alternative investment portfolio, each portfolio sector and each individual investment. Such services are expected to include but not necessarily be limited to the following:

- Calculation of the rate of return for the current quarter, current fiscal year, trailing 1 year, trailing 2 year, trailing 3 year, trailing 5 year and since inception. Rate of return should reflect both gross and net of fees.
- Calculation of the volatility of returns
- Calculate other metrics such as distributions to paid in ratio, duration, effective maturity and the like

- Provide benchmark and peer group comparisons
- Provide attribution analysis to provide insight into the source(s) of return
- Attend Board meetings at least quarterly at which time the performance measurement report will be presented
- Be available to the Board and staff to answer questions and provide information on an as-needed basis

Plan Sponsor Description

DPFRS is a Michigan public employee retirement system which is administered by an eleven member Board of Trustees. Its fiscal year ends June 30 of each year. DPFRS has approximately 4,000 active members and 12,000 retirees and beneficiaries.

DPFRS is a governmental plan and is generally not subject to ERISA. DPFRS is subject to various state statutes and the Detroit City Charter. Michigan Public Act 314 imposes limitations on what fraction of total plan assets may be invested in certain asset classes, including alternative investments.

Investment Structure, Asset Allocation

Total plan assets of DPFRS are \$3.4 billion. The asset allocation of DPFRS is summarized below

	<u>Target</u>	<u>Actual</u>
Equities	56.0%	49.0%
Fixed Income	27.5%	26.4%
Cash	1.5%	1.9%
Real Estate	7.0%	14.0%
Alternative Investments	8.0%	8.7%

Alternative Investment Holdings

Alternative investment holdings consist of 50 fund and direct investments summarized below. Dollar amounts are in millions.

	<u>Total Commitment</u>	<u>Market Value</u>
Private Equity	151.9	109.6
Venture Capital	22.8	12.1
Hedge Funds, Funds of Funds	66.0	78.4
Structured Credit, Mezzanine	67.7	51.7
Business Loans, Direct Investments	119.4	117.6
Other	20.4	15.4
Defaulted and Non-performing	1.8	1.8

Fiduciary Relationship

The successful bidder will at all times be a fiduciary to DPFRS within the meaning of Section 3(21) (A) of ERISA, 29 USCS 1002(21) (A).

Access to Information

Bank of New York Mellon (BNYM) is master securities custodian of DPFRS. All information related to holdings, capital calls, income, book value, market value and the like are maintained by BNYM. Each alternative investment is assigned a unique CUSIP. Information related to alternative investments is maintained in two (2) separate accounts. The successful respondent will be granted access to the BNYM custody system.

QUESTIONNAIRE

Organizational Overview

1. State the name of the firm, the address of its principal (headquarters) office and the location of any other offices to which investment professionals are assigned.
2. Identify the primary contact for this RFP by name, address, telephone number, fax number and email address.
3. What is the ownership structure of the firm? If one individual or entity owns more than 50% or has more than 50% voting control, identify that individual or entity and disclose the ownership and voting control held.
4. Provide a brief history of the firm from its inception.
5. In the past 3 years, what significant organizational changes (mergers, acquisitions, business concerns, etc.), if any, have occurred.
6. State your firm's major lines of business (more than 20% of revenues) in order of most to least revenues along with a brief description of each of these lines of business.
7. Are you registered with the SEC as an investment advisor? If so, provide your Form ADV Part II.
8. In the past 5 years has the firm been a party to any litigation either as plaintiff or defendant? If so, provide a summary of the allegations as well as the current status of the matter.
9. Does your firm carry fiduciary liability, errors/omissions or other insurance coverage which would be relevant to the services described in this RFP? If so, summarize the various types of insurance coverage and indemnification provided to protect clients to include (a) risks covered, (b) carriers, (c) levels, (d) policy limits, and (e) deductibles.
10. How many investment professionals (full time equivalent) does your firm employ? How are these professionals distributed through the organization (research, client service, etc.).

11. How do you attract, motivate and retain investment professionals.
12. What is the average tenure within the firm of the investment professionals.
13. What has been the turnover of your organization's investment professionals in the past three years. Turnover in this context does not include those individuals who retired, were promoted, transferred to another department or went on "family leave."

Client Servicing

1. Describe your general approach to client servicing. How are public fund clients handled differently than other tax exempt clients.
2. Provide an organization chart from the chief executive officer (CEO) down through and including the client servicing team that would be assigned to DPFRS and describe how you would propose to allocate staff to the DPFRS account. To which office(s) are these individuals assigned.
3. What individual or position (by title) would be the assigned as the primary point of contact for the DPFRS (a) staff, and (b) Board of Trustees.
4. What major responsibilities would be assigned to each of the members of the client servicing team assigned to the DPFRS account.
5. Provide a brief biography of each of the members of the client servicing team to be assigned to the DPFRS account.
6. For each member of the client servicing team assigned to DPFRS, how many other client relationships would be assigned to these team members.
7. What is the average total industry experience and years of employment with your organization by position for the client servicing team to be assigned to DPFRS.
8. How is customer satisfaction monitored.
9. What would be the most distinct element of your client servicing approach that DPFRS would benefit from and be considered exceptional relative to other such firms in your industry.
10. Do you hold a periodic forum or conference where clients may interact with senior management? How often are such forums held? Where are they typically located (corporate headquarters, off-site location, etc.)? Which members of your organization's senior management regularly attend these forums? What is the typical content of these forums?

Alternative Investment Advisory Services

1. How long has your firm been providing alternative investment advisory services to clients.
2. What are the total alternative investment assets which you currently have under advisement. What is the distribution of these assets broken out by hedge funds, private equity, mezzanine debt, structured credit, distressed debt and direct investments.
3. Describe your experience and expertise in alternative investments and how you would apply these to the DPFRS account.
4. Provide a summary of your current clients to whom you provide investment advisory services for alternative investments. This summary should include the number of clients and total alternative investment assets advised for public funds, corporate defined benefit, Taft-Hartley funds, foundation/endowments and others.
5. For each of the past 3 calendar years how many alternative investment advisory clients have been gained and lost.
6. As measured by alternative investment assets under advisement who are your three (3) largest domestic tax exempt clients.
7. As measured by alternative investment assets under advisement who are your three (3) largest domestic public fund clients
8. Do you maintain a database of alternative investment managers and their current offerings? If so is this database proprietary to your firm? Provide a summary of what information is available, how many managers/products are covered and how this could benefit DPFRS.
9. What is the total number of investment professionals dedicated to your alternative investment advisory practice? How are the job functions of these investment professionals distributed.
10. Describe briefly the processes and tools your firm uses to develop and implement alternative investment policies and objectives.
11. Describe your investment manager due diligence process for alternative investments.

12. During 2007, 2008 and 2009 how many searches did your firm undertake on behalf of alternative investment clients for hedge funds, private equity, distressed debt and other alternative investments. What was the total dollar value of these searches.

13. Please provide a fee quote for alternative investment advisory services. Identify any and all costs or expenses that DPFRS might incur with your firm.

Alternative Investment Performance Reporting Services

1. How long has your firm been providing alternative investment performance reporting services to clients
2. What are the total alternative investment assets which you provide performance reporting services. What is the distribution of these assets broken out by hedge funds, private equity, mezzanine debt, structured credit, distressed debt and direct investments.
3. Describe your experience and expertise in the performance measurement of alternative investments and how you would apply these to the DPFERS account.
4. Provide a summary of your current clients to whom you provide performance measurement services for alternative investments. This summary should include the number of clients and total alternative investment assets advised for public funds, corporate defined benefit, Taft-Hartley funds, foundation/endowments and others.
5. For each of the past 3 calendar years how many alternative investment performance measurement clients have been gained and lost.
6. As measured by alternative investment assets under advisement who are your three (3) largest domestic tax exempt clients for whom you provide alternative investment performance measurement.
7. As measured by alternative investment assets under advisement who are your three (3) largest domestic public fund clients for whom you provide alternative investment performance measurement.
8. What methods do you utilize to calculate the rate of return (time weighted, IRR, etc.) for alternative investments? Do you prefer one method over another? Please explain.
9. What performance metrics are contained within a typical quarterly report. Provide a brief description of each metric.
10. Describe the methodology and sources of data your firm uses to assign a market value to illiquid assets such as private equity and hedge funds
11. Describe the methodology and sources of data your firm uses to analyze and calculate performance of illiquid assets such as private equity and hedge funds.

12. What is your process for recommending the appropriate benchmark for managers within each alternative investment sector (private equity, hedge funds, mezzanine, distressed debt, etc.).
13. What indices or peer group databases do you use in your performance measurement reports to track the performance of alternative investment managers.
14. How will reports be delivered to DPFRS (hard copy, electronically)?
15. Can DPFRS access the performance reporting system to run or create reports? Is internet access to the performance reporting system available? Can DPFRS create its own customized reports? Please explain.
16. Provide a sample performance report for alternative investments.
17. Please provide a fee quote for alternative investment performance measurement services. Identify any and all costs or expenses that DPFRS might incur with your firm.