

TO: Federated City Employees' Retirement System
Board of Administration
Police and Fire Department Retirement Plan
Board of Administration

FROM: Arn Andrews

SUBJECT: General Consultant RFP Results and Staff
Recommendation

DATE: October 19, 2015

RECOMMENDATION

Accept the results of the Request for Proposal ("RFP") for General Consultant services, and staff's recommendation to engage Verus for both the Federated City Employees' Retirement System and Police & Fire Department Retirement Plan, and for the Secretary to negotiate and execute a contract for an initial term of three years with options to renew for up to two years for a not-to-exceed amount of \$2,100,000.

INTRODUCTION

A RFP for General Investment Consultant services was last issued by Retirement Services in 2008, and based on the results of that RFP, NEPC and Meketa were awarded consulting contracts for the Police & Fire Plan and Federated System, respectively. The Retirement Services leadership in 2008 was seeking qualified General Investment Consultants to help facilitate initial discussions and ultimately implementation of asset allocation diversification strategies. Both NEPC and Meketa have been providing those consulting services ever since and are currently under contract extensions.

Since that time the Boards, in consultation with their consultants, have broadly diversified their asset allocations in an effort to reduce investment risk. Both plans have established well diversified yet highly complex asset allocations. It is against this backdrop that the results of the RFP process align well with the Boards' stated policy objective of reducing risks to the plans' assets. Verus is uniquely qualified to move the plans beyond traditional asset diversification to a best in class asset allocation predicated on asset risk identification, evaluation and remediation. As described in the analysis section of this memorandum Verus has established the most extensive risk infrastructure of respondents.

BACKGROUND

As is the practice in public organizations, when significant time has lapsed, RFPs are issued to get a current sense of the general investment consulting landscape and how it aligns with the

current goals of the plans. In May 2015, the Investment Program initiated an RFP for General Investment Consultant Services. Following is the chronology of the RFP process:

- May 15, 2015: General Consultant RFP issued
- June 29, 2015: Deadline for submission of Proposal
- July/August 2015: Staff evaluated proposals and selected Finalists
- September 2015: Finalists interviewed
- October 2015: RFP results and recommendation to be presented to the ICs
- November 2015: RFP results and recommendation to be presented to the Boards

During the RFP solicitation period the Investment Program received 7 total responses for General Investment Consulting services. Following is a list of the initial respondents:

- Verus
- RVK
- NEPC
- Meketa Investment Group
- Aon Hewitt
- Pension Consulting Alliance
- Angeles Investment Advisors

Written responses were graded based on the following scoring matrix:

SCORING MATRIX		
	35%	Firm Capabilities
	15%	Engagement Team
	15%	Originality of thought / Creativity
	10%	Completeness
	10%	Fit
	5%	Price
	5%	Local Business Preference
	5%	Small Business Preference
	100%	Total

Based on staff's evaluation of the written responses, four firms were selected to move to the interview phase of the RFP process. The interview panels consisted of three investment program scoring evaluators and three observers, the latter being the Chief Investment Officer, the Chair of the Federated System and the Chair of the Police & Fire Investment Committee. Following are the four firms asked to participate in the interview phase:

- NEPC
- Meketa
- Verus
- Aon Hewitt

Based on the combined results of the initial written responses and the interview phase the evaluators determined the following scoring for respondents and their subsequent rankings:

FINAL SCORES				
Evaluator	AON	Meketa	NEPC	Verus
1	60	69	62	77
2	53	73	61	78
3	60	65	61	77
Total	173	207	184	232

FINAL RANKING				
Evaluator	AON	Meketa	NEPC	Verus
1	4	2	3	1
2	4	2	3	1
3	4	2	3	1

ANALYSIS

Firm Overview

Verus was founded in 1986 as Wurts & Associates and conducted business under that name until 2015 when the Verus name was established. Verus is comprised of Verus Advisory and Verus Investors with Verus Advisory being 100% employee owned. Verus Advisory provides non-discretionary services to its clients while Verus Investors provides Outsourced Chief Investment Officer (“OCIO”) solutions to its clients. Verus has approximately \$115 billion in client assets with about \$20 billion of that within the OCIO discretionary services. The firm’s client base includes public, corporate, not-for-profit, and multi-employer plans. Verus currently employs 78 employees of which 59 are investment professionals (78%) across offices located in Seattle, WA and Los Angeles, CA.

Engagement Team

Verus has proposed an engagement team for San Jose of highly credentialed team members with significant industry experience. Following is a summary of the proposed team for San Jose:

Jeffery Maclean – Co-Lead Consultant for San Jose, Senior Consultant, CEO

Mr. Maclean joined Verus in 1992 and is Chief Executive Officer. His primary responsibilities include managing the firm and providing investment advice to several clients. In addition Mr. Maclean chairs the firm’s Management Committee and serves on the Investment Committee. He

received his BA from the University of Washington and an MBA from the Darden School of Business (University of Virginia). He has 27 years of investment experience.

Ed Hoffman, CFA, FRM – Co-Lead Consultant for San Jose, Senior Consultant, Managing Director

Mr. Hoffman joined Verus in 2011. His primary responsibilities are providing strategic investment advice to clients and serving on the firm's Investment Committee. Mr. Hoffman received his BS in industrial management from Carnegie Mellon University and his MBA from the Harvard Business School. In addition Mr. Hoffman is a Chartered Financial Analyst (CFA) charterholder and is certified as a Financial Risk Manager (FRM). He has 18 years of investment experience

Ian Toner, CFA – Managing Director, Strategic Research

Mr. Toner joined Verus in 2013. He has responsibility over all research, including Manager Research, Capital Markets Research, and Topics of Interest. Mr. Toner has a degree in Law from the University of Oxford and holds the CFA designation. In addition to his role at Verus, Mr. Toner is a member of the Advisory Board of the Washington Council on International Trade. He has 23 years of investment experience.

Michael Kamell, CFA – Consultant

Mr. Kamell joined Verus in 2010 and is primarily responsible for providing consulting support. He will serve in a support capacity assisting in the delivery of regular materials and ad hoc analysis as necessary. He has his BA from UC Santa Barbara and holds the Chartered Financial Analyst designation. Mr. Kamell has 7 years of experience.

Brian Kwan, CFA – Senior Consultant Associate

Mr. Kwan joined Verus in 2013 and provides direct support to Mr. Hoffman. In addition he conducts various types of investment research and analysis and consulting support to the Los Angeles based consulting team. Mr. Kwan has a BS from California State University, Long Beach, and an MBA candidate at the Marshall School of Business at the University of California. In addition he holds the Chartered Financial Analyst designation. He has 10 years of experience.

Firm Philosophy

Verus is an industry leader in its fundamental focus and philosophical approach to portfolio risk. The firm believes that pension plans need to clearly establish their enterprise objectives and subsequent risk tolerances towards meeting those objectives. Once those objectives are identified Verus guides the asset allocation process from the perspective that plans should allocate to risk and not necessarily assets. Because of the firm's fundamental focus on risk they have invested heavily in risk infrastructure including both external vendor sourced platforms and internal proprietary platforms. In addition to developing risk infrastructure the firm has a dedicated team of nine individuals for the risk function.

The firm believes that an over-reliance on mean-variance optimization (“MVO”) lacks sufficient robustness for trustee’s and investment programs to fully understand their fiduciary responsibilities. While they use MVO as a starting point for portfolio construction they also incorporate stochastic modeling, risk budgeting and scenario testing among others. Another area unique to Verus’s risk adjusted portfolio construction process is their emphasis for diversification by economic regime which takes into account portfolio performance during different facets of the business cycle. The process diversifies investments into assets that consider the effects of inflation, deflation, and periods of low economic growth. The firm has also developed a proprietary Scenario Analysis Model tool in order to construct more reasonable return forecasts during the Capital Market Assumption development. The tool allows Verus to vary portions of the assumptions to see the range of possible outcomes under different economic scenarios.

In addition the firm has developed a proprietary Risk Dashboard System for calculating and communicating the risk-oriented metrics of client portfolios to boards and investment committees. The Dashboard is a key component of the firms risk management approach and includes dollar allocation to each asset class, geographic allocation, currency allocation, rate and spread duration, equity exposure, active risk, scenario analysis and stress test results, portfolio Value at Risk (VaR) compared to standard portfolios and asset classes, historic VaR relative to the benchmark, and total portfolio risk decomposition by asset class.

CONCLUSION

Staff recommends that the Boards accept the results of the Request for Proposal (“RFP”) for General Investment Consultant services, engage Verus for both the Federated System and Police & Fire Plan, and direct the Secretary to negotiate and execute a contract for an initial term of three years with options to renew.



Arn Andrews
Chief Investment Officer