



- I. **Process Name:** Hiring and Managing Investment Consultants
II. **Process Number:** INV 0060
III. **Contact Person:** Bryan Lewis
Chief Investment Officer
717-787-9008

IV. **Required Resources Before You Start**

A) **Systems:**

N/A

B) **Materials:**

- Request for Information Invitation to include:
 1. Invitation cover memo
 2. Details of service requested for non-discretionary consulting services
 3. Response requirements for non-discretionary consulting services
 4. Response requirements for fee submission
 5. Master Due Diligence Questionnaire
 6. Strategic Investment Plan
 7. Response requirements for Commonwealth of PA Form of Standard Contract
 8. General information to include SERS legal disclosures
 9. SERS asset allocation related to the specific assets covered by consultant

C) **Special Notes:**

A consultant selection committee is appointed by the Chairman to review, evaluate, score, and shortlist the candidate's responses. The selection committee is comprised of Board members.

Investment consultants may be procured on a sole source basis pursuant to Section 515 (8) of the Procurement Code.

V. **Introduction**

A) **Purpose of Process:**

Investment consultants are hired by the Board to act as an extension of investment office staff to assist in providing investment advice that is independent, objective and free from conflict of interest. The consultants are required to attend Board meetings and be available to respond to questions as needed. The consultant advises investment staff and the Board on issues such as asset allocation policy, selection and monitoring of investment managers, and performance reporting. SERS investment staff and consultants work together to search for investment managers/opportunities to fulfill the Board's investment policies.

The Board employs the following consultants: (1) a general investment consultant, which provides advice regarding the total fund, the Deferred Compensation Plan ("DCP"), and certain public market asset classes and managers; (2) a secondary investment consultant may be retained to provide independent confirmation of



advice regarding major policy, special issues, specialized investment mandates, and/or back office support; (3) a private equity consultant, which provides advice regarding the composition of the private equity asset class (e.g., leveraged buyouts, venture capital and special situations) and suitable investment opportunities; and (4) a real estate consultant, which provides advice regarding the composition of the real estate asset class and suitable investment opportunities.

When current investment consultant contracts are up for renewal, or when the Investment Office and the Board deem it necessary to hire an investment consultant, a Request for Invitation ("RFI") is developed and provided to potential investment consultants for responses; *provided*, however, where circumstances require, the Board reserves the right, at its exclusive discretion, to extend the term of the current contract to allow the RFI process to be properly performed, and/or for the potential transition from the previous consultant to be appropriately completed. The Board makes all final decisions regarding the hiring and termination of managers and consultants.

- B) Customer:**
 - Board
- C) Who Performs:**
 - Investment Office
 - Board
 - Board Consultant Selection Committee
 - Legal Office
- D) External Participants:**
 - Investment Consultants



E) Additional Information:

Contract provisions require coordination between SERS Investment Office and SERS Legal Office during contract negotiations and draft phases.

The Investment Office initiates the development of a Request for Information approximately one year prior to the expiration of the current consultant's contract.

Approximate Timeline of Hiring Consultants Process

Month 1	SERS Investment Office initiates Request for Information with input from SERS Legal Office.
Month 2	SERS Investment Office sends Request for Information Invitation and due diligence questions to selected consultant candidates.
Month 3	Consultant candidate responses due to SERS Investment Office.
Month 4-5	SERS Investment Office and Legal Office review responses, and the Investment Office recommend three to four semi-finalists to the Board's consultant selection committee.
Month 5-7	<p>SERS Investment Office provides summary profiles and fee analysis of semi-finalist candidates to the Board's consultant selection committee.</p> <p>The consultant selection committee interviews semi-finalists and recommends two to three finalists for interviews before the full Board.</p> <p>SERS Investment Office provides a memo to the full Board describing the finalists' profiles, fee structures, and selection committee's final recommendations.</p>
Month 7-8	<p>Finalist presentations to the full Board during regular Board meeting.</p> <p>The full Board interviews and selects desired consultant.</p>
Months 8-11	Negotiations of business and legal terms begin. Contract is finalized and signed.
Month 12	The previous consultant contract expires.



VI. Related Information

A) Related Policies:

- Main Statement of Investment Policy
- Real Estate Statement of Investment Policy
- Private Equity Statement of Investment Policy

B) Related Processes:

N/A

C) Definitions:

N/A

D) Materials:

N/A

E) Special Notes:

N/A

VII. Document Properties

A) Document Owner: Bryan Lewis

B) Document Author: William Truong

C) Summary of Changes:

Date	Version	Author	Summary
4/6/2005	1	Jim Gross	Drafted final process
9/29/2016	2	William Truong	Updated process to reflect changes from an RFP to RFI framework
1/17/2017	3	William Truong	Legal Office (Jeff McCormick and Chris Houston) recommended updates to process. Specifically, sole source language was revised in section IV(C). Contract extension language was added in section V(A).



VIII. Steps

1. **SERS Investment Staff Develop Request for Information (RFI)**

The objective of the RFI is to select the most qualified investment consultant to assist in the development and monitoring of investment policies designed to ensure that sufficient assets are available to meet current and future benefit obligations. The RFI is designed to evaluate firms based on their demonstrated ability to meet the service requirements of SERS. The following is a summary of the selection criteria:

- **Organizational Capacity**: Relevant knowledge and experience in similar consulting engagements and capacity to provide experienced staff for this engagement.
- **Consulting Capabilities**: Quality and completeness of the firm's capabilities in investment policy and asset allocation, performance measurement and analysis, research and education, and manager search and selection.
- **Service Capabilities**: Demonstrated ability to meet service requirements, such as communicating with the Board and staff on both on-going and special issues.
- **Fees**: Proposed fees and time commitments.

SERS Investment Office and SERS Legal Office updates and amends the previous RFI based on current needs and assessments, and considers current best practices.

2. **Send the RFI to Potential Investment Consultants**

Since SERS Investment Office has knowledge of industry leading consultants, SERS investment staff may send invitations to potential candidates to respond. SERS also has the option to advertise, if needed.

3. **SERS Investment Office Recommends Semi-Finalists to Board Consultant Selection Committee**

SERS Investment Office will review all responses to questions, follow-up with the consultant candidates to clarify any concerns, and recommend three to four semi-finalists to the Board consultant selection committee. Candidates will be evaluated on their organizational capacity, consulting/service capabilities, and fee structures.

Evaluation criteria for "organizational capacity" may include:

- Does the firm provide consulting services for required asset classes and investment opportunities?
- Does the firm show sufficient depth and experience among the firm's key personnel?
- Does the firm show sufficient key personnel assigned to SERS to meet SERS' needs?
- Does the firm have significant experience working with large public pension funds?



- Does the firm demonstrate a commitment to institutional investment consulting?
- Is there stability among the firm's personnel?
- Does the firm avoid affiliations and lines of business (e.g., brokerage, sale of products and services to investment managers, etc.) that could lead to potential conflicts of interest?

Evaluation criteria for "consulting/service capabilities" may include:

- Does the firm demonstrate a proactive approach to investment analysis (evaluate investment issues and provide recommendations for action)?
- Does the firm provide high quality and valuable investment manager, industry, and market research?
- Does the firm have a sufficient process and demonstrated expertise to:
 - Review the asset allocation and investment objectives;
 - Perform detailed analysis of its specific market expertise;
 - Review and develop investment policies;
 - Review current asset classes, manager/fund structures, and manager style analysis;
 - Analyze and monitor investment managers/funds and their attributes;
 - Perform investment manager/fund searches;
 - Facilitate the selection and hiring of the best available investment managers/funds;
 - Construct and utilize performance benchmarks (investment manager level, asset class level, and total fund level);
 - Calculate and report investment manager/fund performance, asset class performance, total fund performance, and cash flows;
 - Develop and present written and oral presentations on investment related matters to support investment objectives; and
 - Provide risk analytics of individual portfolios, asset classes, and/or total fund level?

4. Board Consultant Selection Committee Interviews and Selects Finalists

The selection committee will interview the semi-finalists and recommend two to three finalists to the full Board.

5. Full Board Interviews and Selection

Semi-finalist candidates will have an opportunity to present to the full Board. The Board will then deliberate and select a consultant.



6. Contract Negotiations

SERS Investment Office and SERS Legal Office enter into contract negotiations with the Board-selected consultant candidate.

7. SERS Investment Office Conducts Ongoing Reviews

In addition to the hiring process, fundamental issues such as the (i) role of consultants, (ii) capabilities of consultants, (iii) regulation of consultants, (iv) disclosure obligations of consultants, and (v) any potential conflicts of interest, need to be specifically defined.

SERS Investment Office and consultants maintain close contact. Consultants are on-site for eight Board meetings per year, participate and attend Board committee meetings, work with investment staff in manager searches and evaluations, work closely with staff on annual plans and special projects, respond to information requests on a routine basis, and maintain close telephone and email contact on an as-needed basis. As a result, evaluation of the consultant's delivery of services is performed on a continual basis.

The consultants are required to notify SERS of any legal, personnel, ownership, conflict of interest, or other changes in accordance with the contract. The Investment Office and/or SERS Legal Office will assess the impact of these changes on the relationship and report to the Board.

The consultants provide the Investment Office with an advisor disclosure form (ADV) annually.