

CHICAGO TRANSIT AUTHORITY RETIREE HEALTHCARE TRUST

Request for Proposal/Search for Investment Advisor Active Domestic Equity Mid Cap Growth

Introduction

The Chicago Transit Authority Retiree Healthcare Trust ("Trust") is requesting proposals from investment management firms interested in providing active domestic equity mid cap growth investment management services to the Trust.

The Trust was established in 2008 by the Illinois General Assembly and is governed by the Illinois statutes. The Board of Trustees ("Board") of the Trust is made up of seven members who manage the assets of the Trust and authorize payment of healthcare benefits to retirees and employees of the Chicago Transit Authority. As of December 31, 2009, the market value of the Trust was \$536 million. The assets are managed externally by 12 investment managers consisting of 12 different investment portfolios.

Goal

The Board is soliciting firms to provide active domestic equity mid cap growth investment management services. The mandate is for approximately \$33 million. This Request for Proposal ("RFP)/Search for Investment Advisor ("SIA) is not an offer to contract but seeks the submission of proposals from qualified, professional firms that may form the basis for negotiation of an Investment Management Agreement (IMA). Amendments to the IMA are disfavored. Any objections to the IMA shall be detailed in their response. The Trust reserves the right to reject any or all proposals and to solicit additional proposals if that is determined to be in the best interests of the Trust.

The following documents are available on the Trust's website at www.ctapension.com : RFP/SIA, the Formal Investment Policy, the Procurement Policy for Investment Advisers and a sample IMA which includes the Broker Dealer Utilization Policy, the Ethics Policy and the Most Favored Client Policy as Exhibits.

Timeline

RFP/SIA Date of Issue:	April 23, 2010
Deadline to Submit Written Questions:	May 21, 2010
RFP/SIA Due Date:	June 1, 2010
Proposal Evaluation (Tentative):	June 24, 2010
Finalists Notification By (Tentative):	June 28, 2010

Finalists Presentations By (Tentative):	July 15, 2010
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Submission Process

The RFP/SIA process will be overseen by the Trust's investment consultant, Gray & Company. The RFP/SIA is available on the Trust's website listed above and the consultant's website at www.egrayco.com. Questions concerning the RFP/SIA must be submitted via email to the search contact by 3:00 PM Central Standard Time on May 21, 2010. Respondents must submit an electronic copy of the completed RFP/SIA to the consultant at elizabethc@egrayco.com by 3:00 PM Central Standard Time, on June 1, 2010. Any responses after the deadline will not be considered for this search.

Consultant Search Contact

Elizabeth Crenshaw
Gray & Company
7000 Peachtree-Dunwoody Road, Building 5
Atlanta, Georgia 30328

Scope of Services

The manager shall serve as a fiduciary to the Trust and have independent discretionary authority with respect to the management of the portfolio and subject to the agreed upon objectives and guidelines. The portfolio objectives and guidelines will be illustrated in Exhibit A of the IMA, once agreed upon by the Trust and the investment manager.

Minimum Qualifications

To be qualified to participate in the RFP/SIA, all respondents must meet all of the following minimum qualifying criteria. The respondent must:

1. Be an investment advisor duly registered with the Securities & Exchange Commission pursuant to the Investment Advisors Act of 1940 and that such registration is current.
2. Have managed Mid cap growth equity portfolios for at least three years.
3. Manage Mid Cap Growth assets of at least \$330 million.
4. Comply with all Federal and State laws applicable regarding investment entities.
5. Carry errors and omissions insurance or a comparable instrument to cover the firm's negligent acts or omissions.
6. Maintain sufficient procedures and capabilities to ensure the timely and accurate backup and full recovery for all computers and other data storage systems related to the IMA.
7. Comply with the Trust's Most Favored Client Policy, Broker Dealer Utilization Policy and Ethics Policy.

Evaluation Criteria

1. Investment Philosophy and Methodology
2. Performance
3. Firm Background, Experience and Reputation
4. Portfolio Management and Client Services
5. Reasonableness of Fees
6. Fit with the Trust's Overall Investment Policy and Allocations Among Existing Investment Advisers

The consultant, with the guidance of the Trust's staff, shall determine how well the proposal meets the review criteria. The consultant shall present a list of higher qualified respondents to the Board.

Quiet Period

According to the Trust's Procurement Policy for Investment Advisers, the Quiet Period shall begin as of the deadline for the submission of responses to the RFP/SIA and end when the selection has been made by the Board. The Quiet Period prohibits respondents from communicating with the Board or staff regarding any product relative to this search. During the Quiet Period, the Board, staff and consultant cannot accept meals, travel, lodging or any other goods or service of value from the respondents. A respondent will be disqualified for violating the Quiet Period. Questions regarding the search shall be forwarded to the consultant.

Post Performance Review Process

Post performance review, including termination, shall be conducted in accordance with the Trust's Formal Investment Policy.

Disclosure of Proposal Content

Respondents are advised that proposal materials are subject to the Illinois Freedom of Information Act, 5 ILCS 140. The law requires that at the conclusion of the selection process, the contents of all proposals be placed in the public domain and be open to inspection by interested parties. Trade secrets, confidential or proprietary information must be clearly identified as such in the proposal and will not be released to the extent permitted by law.

Disposition of Proposals

All proposals become the property of the Trust and will not be returned to the respondent. The Trust reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of

whether that proposal is selected. Submission of a proposal indicates acceptance of the conditions contained in this RFP.

REQUEST FOR PROPOSAL/SEARCH FOR INVESTMENT ADVISOR

**DOMESTIC ACTIVE MID CAP GROWTH EQUITY STRATEGY
SEPARATE ACCOUNT**

(Please answer all questions. For any question left not answered please note the exclusion with an N/A or an explanation.)

Date _____

Firm Name: _____ Phone: _____

Fax: _____

Mailing Address: _____

Primary Contact: _____

Email Address: _____

Ownership Structure

___ Independent Advisor ___ Bank Affiliated ___ Broker Affiliated

___ Insurance Affiliated ___ Mutual Trust Company ___ Other (Please Describe)

Employee Ownership _____% Non-employee Ownership _____% Minority Ownership _____%

Please list the name and address of any entity that is a parent of or owns a controlling interest in the responding firm, any persons who have ownership or distributive income share in the firm that is in excess of 7.5%, and the executive officers of the firm.

Firm Information

1. Please provide your current representative client list with the following information:
Client name, client classification (*Endowment, Foundation etc*), product utilized, inception month & year.

2. Within the last five years has the firm, any predecessor of the firm, or a member of the firm:
 - a. Been the subject of any stop order, consent decree censure, reprimand or any other disciplinary action by the SEC, NASD, NYSE, ASE, or any other state or federal regulatory agency? If yes, please explain.

 - b. Is any employee or any of your affiliates (including third party vendors) currently the subject of any current investigation, lawsuit, or legal proceedings in which there are no formal charges yet rendered? If yes, please explain.

3. Please provide an organizational chart which diagrams the interrelationships among the professional Staff as well as the parent-subsiary, affiliate, or joint venture entities.

4. Please describe the levels (dollar amounts) of coverage for SEC-required (17 g-1) fidelity bonds, errors and omissions coverage and any other fiduciary coverage which your firm carries. List the insurance carriers supplying the coverage.
5. Please discuss any conflicts of interest your firm may have in the management of any client accounts. Include any activities of affiliated or parent organizations, brokerage activities, investment banking activities or any past or current relationships of any kind with board members. Include any other pertinent activities, actions, or relationships not specifically outlined in this question.
6. Please detail how your firm uses soft dollar transactions. How do you disclose this information to your clients? *Please provide us with an example of what your soft dollar policy and statement of activity would look like when it is submitted to clients.*
7. Please list in columns the following information for each year:

(Manager)	YTD 2010	2009	2008	2007	2006	2005
Total assets under management	\$	\$	\$	\$	\$	\$
Total discretionary domestic equity	\$	\$	\$	\$	\$	\$

8. Please indicate the total amount of assets and the number of accounts your firm currently manages for institutional clients in the Mid-cap growth product which you are proposing to the Trust.
9. In separate paragraphs, please give details on the name/client type and asset value of all the terminated institutional client relationships for the last three years for your firm in the Mid cap growth product which you are proposing to the Trust. In addition, please include the stated reason for the termination.
10. How long have you been in compliance with the CFA Institute's Global Investment Performance Standards (GIPS)? Do you have annual audits of your composite? If no, when was the last time your composite was audited?

PEOPLE/ORGANIZATION

1. Please list portfolio Managers providing appropriate biographical information in *paragraph form. Highlight the person(s) who would be responsible for the account/product you are answering this questionnaire for today.*

How many client portfolios is each of the firm's portfolio Managers responsible for as of close of business today?

2. Have any investment or business management personnel left or joined the firm in the last five years? If so, please indicate when and why. Please specifically highlight any portfolio Managers, Chief Investment Officers, or any individual(s) responsible for the strategic oversight of your investment process that have left the firm since inception. Please also indicate when this event occurred and provide us with your firm's official statement.

3. Please discuss your organization's compensation and incentive program. How are professionals evaluated and rewarded? (We are especially interested in how your traders, investment analysts, business operation officers, portfolio Managers and investment strategists are compensated.)
4. What criteria must be met for employees to become vested owners of your firm, if any? If no employee ownership program exists at this time are there any plans to include one in the future?
5. Please describe your succession plan and how it will be executed when there is a major change in the company structure regarding a majority shareholder/equity owner or senior officers with the company. Have you had to execute any portion of this succession plan since your firm started marketing investment services to clients?

INVESTMENT PHILOSOPHY

Policy and Process

1. Please describe the investment philosophy for your firm's mid-cap growth equity investment product. In addition, please include your rationale for why your style is all growth or growth at a reasonable price (GARP).
 - a. What are the assets in your mid cap growth strategy as of the most recent month end as well quarter end (3/31/2010).
 - b. How do you define what you consider to be your best-fit benchmark to your current clients? Please provide research to support the belief that your process will outperform your best-fit benchmark in the future market cycles.
 - c. Have any market events in the past allowed you to make modifications to enhance your investment process for future market cycles? *(For instance, for some active managers the calendar year of 2008 presented challenges to their investment process that forced some to make slight modifications/considerations. What modifications, if any, were made to ensure the future stability of your process during difficult market environments.)*
 - d. How sensitive do you feel your current portfolio will be in this kind of market environment? Since many mid-cap growth securities do not pay big dividends, many strategists continue to view the mid-cap growth segment of the market as having a long duration. Does your research agree with this historical opinion?
 - e. It is understood that much of the recent performance within the Russell Mid Cap Growth has been due to the consumer discretionary, energy, technology and healthcare sectors. How does your active management approach add alpha during non-sustainable market environments?
2. During 1998 and much of 1999, many mid-cap growth oriented managers focused on having a larger market capitalization than the Russell Mid Cap Growth index in order to out-perform. However recently, many of the smaller capitalization growth stocks have tremendously out-performed most mid-capitalization issues. Please answer the following:
 - a. How many issues do you own currently that have a market capitalization below \$5 billion? Below \$1 billion?

- b. As a mid capitalization manager, how much of a percent weighting would you typically own below the \$5 billion market capitalization range over a full market cycle?
 - c. Does your portfolio include any foreign securities or ADR's, GDR's or ETF's? If so, what is the maximum exposure allowed in the portfolio?
3. Please describe how the following characteristics apply to your investment philosophy:
 - a. Are the stocks in your portfolio projected to deliver faster or slower earnings growth than the Russell Mid Cap Growth index?
 - b. What is your market outlook regarding sustainable growth within your portfolio?
 - c. Does your portfolio exhibit a higher or lower P/E ratio relative to the Russell Mid Cap Growth index?
 - d. What percentage of the stocks in your portfolio are represented in the Russell Mid Cap Growth index?
 - e. Currently, what percentage of your stocks have a beta of greater than 1?
4. Describe the decision making process. Please include the following in your answer:
 - a. Include the titles and responsibilities for all individuals involved at each stage of the investment process.
 - b. How much latitude/discretion does the portfolio manager have, if any? Please provide an example of when the portfolio Manager will use their discretion to change an investment decision when there was a research conflict.
 - c. Please provide information on how your firm will change model portfolios in order to meet certain client objectives?
5. How does your firm implement the investment philosophy during the portfolio construction process for clients? Either within one answer or separately, your answer must include discussion regarding the following topics and issues within your Mid-cap growth product:
 - a. We believe that all clients who hire an active manager are looking for some level of alpha performance. Please list the ways your investment process is designed to add alpha to client portfolios. Please be very specific and provide examples and research. *(For instance, some Managers look to add alpha by generating better information than the market in their fundamental research efforts...others believe that only quantitative analysis is necessary to out-perform the market. Just making a statement is not enough. Please provide insight and some details as to why your analysis is better than information currently processed by the market...)*
 - b. Please discuss your buy process and your sell process in separate paragraphs. Provide current examples of how each will work.
 - c. The institutional marketplace has commonly referred to several different definitions for mid-capitalization securities. Please describe your firm's definition of a mid-cap security. What market capitalization breakpoints do you utilize?

- d. Please describe the portfolio construction process in detail along with your internal guidelines.
 - e. It is understood that for investment firms to consistently out-perform the mid-cap indices, they had to have significant exposure and excellent stock selection in the technology sector. Please answer the following regarding your philosophy towards the technology sector:
 - f. The Russell Mid Cap Growth index currently has greater than a 18% weighting in technology. How much technology exposure did your firm have as of March 31, 2010?
 - g. It is understood that the technology sector can be very volatile. Please describe how your risk controls work in a sector where 20% price movements can happen within hours.
 - h. It is understood that your investment team's skill at projecting positive and negative earnings surprises among your technology holdings will determine if you out-perform in this current market environment. Since Wall Street analysts' estimates for many of the mid-cap technology stocks vary widely, how do you determine which estimates you will utilize in your stock selection model?
6. Who are your technology/healthcare analysts? How long have they been with your firm? How much investment experience as an analyst do they have?
- a. Please describe why your process depends more on a bottom up or top down philosophy.
 - b. Please describe why your process depends upon fundamental or quantitative analysis.
 - c. How much technical analysis is performed on securities held in your client portfolios?
 - d. How important is liquidity in your investment process? What kind of liquidity screens and constraints do you utilize in your mid-cap portfolio construction process? *(For instance, some mid-cap Managers may wish to never have any of their holdings represent more than 25-50% of the average daily trading volume over a given period of time.)*
 - e. How does your firm define benchmark risk?
 - f. How do you explain to prospective clients the risks typically associated with the implementation of your investment process?
 - g. Please describe your portfolio risk controls.
 - h. What has your annual turnover ratio been during the last five years? Please describe the trading techniques that are utilized in order to protect the excess returns your process intends to deliver to clients from prohibitive transaction costs.
 - i. Under what circumstances would your firm deviate from its disciplines or change the investment process?

- j. How much dispersion is there between your best performing account and your worst performing account in your composite during an average quarter? Please provide the most recent information that your firm has available.
- k. How many issues are contained in a typical portfolio? How are cash equivalents used? Do you use derivatives? Do you utilize hedging strategies? If so, describe instrument types, limitations and risk control measures you use.
- l. Are securities in the portfolio typically distinguished by particular characteristics (theme, sector, dividend growth, quality etc)? Are there any securities or sectors not normally held for any reason due to your typical investment analysis?
- m. Please describe the universe from which securities are selected and how this universe is constructed. Do you optimize your composite against any particular index? If yes, which index do you optimize your client portfolio against?
- n. What exclusionary or prudent screens are applied to securities before they are included in the client portfolio?
- o. Please list all of the systems (*proprietary & third party provided*) that are utilized to construct and service your client accounts.
- p. Describe where most of the relative value comes from in your investment process relative to your composite.

- ___% Quantitative
- ___% Technical Analysis
- ___% Fundamental Analysis
- ___% Sector Selection/Allocation
- ___% Other

- 7. Please add any commentary on why your firm is unique from other investment management firms.
- 8. Please describe your firm's market outlook for the current year.

PERFORMANCE / COMPOSITE ANALYSIS

Please provide the contact name, title, address, phone number, client type, benchmark, total amount of assets managed, and date of account inception for three to five current institutional clients.

- 1. Please provide your composite quarterly returns (net of fees) since inception for Equity and Equity + cash.
- 2. Please provide the number of accounts in your composite every year since the firm inception date. Be sure to include the annual dollar value of the composite since inception as well.
- 3. How many mid-cap growth accounts are not included in your composite, if any? Please describe the reasons for the excluded accounts and the total dollar amount.

4. Provide the following composite portfolio characteristics as of the last calendar quarter: Compare these characteristics versus the best-fit benchmark that you are commonly measured against? Please list the benchmark name.

	Manager	Benchmark
\$ Weighted Avg. Market Capitalization (Cap.)		
\$ Median Market Cap.		
Price/Book ratio		
Price/Sales ratio		
Price/Earnings ratio		
Dividend Yield		
Smallest and Midst market cap. Position in your composite.		
Return on Equity(ROE)		
Avg. 5 year projected growth rate of companies in the composite		
Forecasted ratios		
1 year forecast P/E		
% Market cap ranges (<i>% amounts please</i>)		
%Mid Capitalization: \$55.65 & Above		
%Medium/Mid Cap.: 11.00 -- 55.65		
%Medium Capitalization: 4.00 -- 11.00		
%Medium/Small Cap.: 1.50 – 4.00		
%Small Capitalization: 1.50 & Below		

FEES

1. What is your standard fee schedule?
2. Do you have a most favored client policy?
3. The Trust’s IMA requires that the investment firm certifies that “no finder’s fee or finder’s commission or any other consideration has been, or will be paid to any individual or organization, other than a bona fide employee working solely for the investment firm, resulting from the establishment of this investment management relationship with the Trust.” Would your firm be able to make this certification?

Thank you for responding to our RFP.

 I certify that the returns reported by my firm are representative of those achieved for accounts with similar guidelines and objectives and have been calculated in accordance with accepted performance measurement standards.

I certify that the firm meets the terms of the RFP/SIA including the Minimum Requirements of the RFP/SIA.

I certify that I am an officer authorized to contractually bind the firm.

 Signature

 Title

Name

Date