

METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND

Request for Proposal/Search for Investment Advisor Core Plus Fixed Income

Introduction

The Metropolitan Water Reclamation District Retirement Fund (“Fund”) is requesting proposals from investment management firms interested in providing Core Plus Fixed Income investment management services to the Fund. The Fund was established on July 7, 1931 by the Illinois General Assembly and is governed by the Illinois Pension Code (40 ILCS 5/13-101 et. seq.) The Board of Trustees (“Board”) of the Fund is made up of seven members who manage the assets of the Fund and authorize payment of retirement, survivor and disability benefits for eligible employees of the Metropolitan Water Reclamation District of Greater Chicago. As of November 30, 2011, the market value of the Fund’s investments was \$983 million and managed externally by 22 investment managers.

Goal

The Fund is searching for two Investment Managers to manage approximately \$75 million each in this strategy. 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 the response. The Fund 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 Fund.

The following documents are available on the Fund’s website at www.mwrdrf.org: 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:	January 10, 2012
Deadline to Submit Written Questions:	February 6, 2012
RFP/SIA Due Date:	February 9, 2012
Proposal Evaluation (Tentative):	February 22, 2012
Finalists Notification By (Tentative):	March 28, 2012

Submission Process

The RFP/SIA process will be overseen by the Fund’s investment consultant, Gray & Company and Fund staff. The RFP/SIA is available on the Fund’s website listed above and the consultant’s website at www.egrayco.com. Questions concerning the RFP/SIA must be submitted via email to research@egrayco.com by 3:00 PM Central Standard Time on February 6, 2012. Respondents must submit an electronic copy of the completed RFP/SIA to the consultant at research@egrayco.com by 3:00 PM Central Standard Time, on February 9, 2012. Any responses received after the deadline will not be considered for this search.

Consultant Search Contact

Yolanda Waggoner-Foreman
Gray & Company
55 East Monroe Street
Suite 2950
Chicago, IL 60603
Phone: 312-376-4729

Scope of Services

The manager shall serve as a fiduciary to the Fund 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 Fund and the investment manager.

Minimum Qualifications:

1. The firm must be a Registered Investment Advisor under the Investment Advisors Act of 1940.
2. The firm must have experience in the management of institutional portfolios operated under prudent person standards;
3. The firm and/or the firm's principals in former associations must have a verifiable, historical 5 year performance record for the product being offered, preferably compliant with Global Investment Performance Standards (GIPS), and the principals must have at least five years of related investment management experience;
4. The firm must have a minimum of \$500 million in assets under management in the strategy.
5. The firm must have at least five distinctly different clients;
6. Comply with all Federal and State laws applicable regarding investment entities.
7. Carry errors and omissions insurance or a comparable instrument to cover the firm's negligent acts or omissions.
8. 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.
9. At all times, the Fund's account can comprise no more than 15% of the manager's asset under management in the strategy;
10. The manager must be willing to propose a fee based on most favored client status or among the top half of fees among similar respondents.
11. Comply with the Fund'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 Fund's Overall Investment Policy and Allocations Among Existing Investment Advisers

The consultant, with the guidance of the Fund'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 Fund'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 Fund's Formal Investment Policy which can be found on the Fund's website.

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 Fund and will not be returned to the respondent. The Fund 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.

Thank you for your interest in this RFP and we look forward to your response.

REQUEST FOR PROPOSAL/SEARCH FOR INVESTMENT ADVISOR

Core Plus Fixed Income

All proposals must be complete in every respect and must answer concisely and clearly all questions proposed by this RFP. Incomplete proposals will be disqualified.

Date: _____

Name: _____

Phone: _____

Fax: _____

Mailing Address: _____

Primary Contact: _____

Email Address: _____

Product: _____

Benchmark: _____

**SECTION 1
ORGANIZATIONAL BACKGROUND**

1. Ownership Structure:

Independent Advisor

Bank Affiliated

Broker Affiliated

Insurance Affiliated

Mutual Fund Company

Other (Please Describe)

Employee Ownership _____%

Non-employee Ownership _____%

Minority Status

2. A minority, woman, or disabled-owned firm is defined as a sole proprietorship, partnership, or corporation owned, operated and controlled by minority group members who have at least 51% ownership. (If applicable, please attach your firm's minority certification)

Owner Name	Ownership %	Minority Designation

3. 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.
4. Please list the location(s) of your headquarters, branch offices and the primary function of each office.
5. 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.
6. Provide details of any past or pending litigation relating to your firm, its affiliate, individual personnel, or to the management of client assets.
7. Provide details of any SEC or state regulatory action taken against your firm or any of its owners/personnel.
8. 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.
9. Please provide your firm's total assets under management as of 9/30/11.
10. Please list in columns the following information for each year:

Assets Under Management	As of 9/30/11	2010	2009	2008	2007	2006
Core Plus Fixed Income						

11. Please provide your current representative institutional Core Plus Fixed Income client list with the following information as of September 30, 2011:

Institutional Client	Classification	Core Plus Fixed Income (\$AUM)	Inception Date	Separate or Commingled?

12. Please complete the following table for the product in question:

Account Type	Assets in Millions as of 9/30/11	Number of Accounts as of 9/30/11
Corporate		
Public fund		
Union/multi-employer		
Foundation and endowment		
Insurance		
High-net-worth individuals		
Wrap accounts		
Sub-advised assets		
Other, please explain		
Total		

Vehicle Type	Assets in Millions as of 9/30/11	Number of Accounts as of 9/30/11
Separate account		
Commingled fund		
Mutual fund: institutional class		
Mutual fund: retail class		

13. Please complete the following table:

	Accounts Gained			Accounts Lost		
	# of Accounts	Assets in Millions	% of Product Assets	# of Accounts	Assets in Millions	% of Product Assets
As of 9/30/11						
2010						
2009						
2008						
2007						
2006						

a. Please discuss the reasons for the lost accounts indicated in the table above.

**SECTION 2
PEOPLE/ORGANIZATION**

1. Please complete the following table regarding your firm's professional characteristics:

MALE

	Caucasian	African American	Asian	Hispanic	Native American	Disabled	Total
Senior Executives / Mgmt.							
Inv. Professionals (Excluding Traders)							
Inv. Professionals (Traders)							
Inv. Professionals (Excluding Sales / Marketing & Client Service)							
Sales / Marketing & Client Services							
Office / Clerical							
Technicians							
Other Non-Professionals							
Total							

FEMALE

	Caucasian	African American	Asian	Hispanic	Native American	Disabled	Total
Senior Executives / Mgmt.							
Inv. Professionals (Excluding Traders)							
Inv. Professionals (Traders)							
Inv. Professionals (Excluding Sales / Marketing & Client Service)							
Sales / Marketing & Client Services							
Office / Clerical							
Technicians							
Other Non-Professionals							
Total							

2. Please provide the biography information on the Core Plus Fixed Income team in paragraph form.

3. Please list your firm’s key professionals in the format provided below: *Highlight the person(s) who would be responsible for the account/product you are answering this questionnaire for today.*

Name	Responsibility	Yrs. With Firm	Yrs. With Prior Firm	Total Years

4. Have any personnel left or joined the firm in the last three years? If so, please indicate when and why. *For this questionnaire, we are interested in how many (1) Portfolio Managers, (2) Chief Investment Officers, (3) Analysts, or any individual(s) responsible for the strategic oversight of your investment process that have left the firm since inception?*
5. Please discuss your organization’s compensation and incentive program. Included in your answer, please include information on the following:
- How are professionals evaluated and rewarded?
 - 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?
6. 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?
7. Please provide a copy of your firm’s ethics code.
8. Please provide a copy of your firm’s disaster recovery plan.
9. Please add any commentary on why your firm is unique from other investment management firms.

SECTION 3
INVESTMENT PHILOSOPHY
Policy and Process

1. Please discuss your investment process in as much detail as possible. Is your investment process top-down, bottom-up, or a combination? Include a discussion of the following:
- Universe of fixed income securities considered
 - Diversification/number of securities held in each portfolio
 - Investment time horizon/portfolio turnover policy

2. Fixed income securities are typically utilized for defensive purposes, income generation, and for capital appreciation. Which of these purposes defines your investment process and philosophy most accurately? Please explain.
3. Please describe the investment philosophy for your firm's fixed income investment product(s). Please describe the rationale for why your philosophy is centered on interest rate anticipation, duration neutral, issue selection, etc.
4. Compare your Core Plus Fixed Income Composite for the years ending September 30, 2011, with the Barclays U.S Aggregate Index:

Characteristics	Composite 9/30/11	Benchmark 9/30/11	Composite 9/30/10	Benchmark 9/30/10	Composite 9/30/09	Benchmark 9/30/09
Avg. duration (yrs)						
Avg. yield to maturity (%)						
Avg. maturity (yrs)						
Avg. Coupon (%)						
Avg. quality						
Number of Issues						

5. Please complete the following table for the years ending September 30th versus the Barclays U.S Aggregate Index:

Rating	% Composite 9/30/11	% Benchmark 9/30/11	% Composite 9/30/10	% Benchmark 9/30/10	% Composite 9/30/09	% Benchmark 9/30/09
AAA						
AA						
A						
BAA						
BA						
B & Lower						

6. Identify the Sector Weightings for your Core Plus Fixed Income Composite for the years ending September 30th compared to the Barclays U.S Aggregate Index:

Sector	% Sector at 9/30/11	% Benchmark 9/30/11	% Sector at 9/30/10	% Benchmark 9/30/10	% Sector at 9/30/09	% Benchmark 9/30/09
Domestic govts/agencies						
Domestic investment-grade corporates						
Domestic high-yield corporates						
Domestic mortgage-backed securities (MBS)						
Mortgage pass-thrus (TBA mkt)						
Commercial mortgage-backed securities (CMBS)						
Asset-backed securities (ABS)						
Private placements/144s						
Municipals						
Convertibles						
Non-US developed market sovereigns						
Non-US developed market corporates						
Non-US developed market MBS/ABS						
Emerging market debt						
Yankees						
Non-US Dollar						
Global high yield						
Other (please specify)						
Total	100%	100%	100%	100%	100%	100%

7. Please explain your decision making process for sector allocation, yield curve, countries, currencies, and duration management, where applicable.

8. Please provide information on the following, if it is not specified above.

- a. Please describe how your firm will typically adjust your yield curve decision in rising and falling interest rate environments, separately.
- b. Please list the people who are responsible in your company for making the yield curve decisions, their tenure with the firm, and their years of investment experience.
- c. Please list the economic and market statistics you analyze regularly to make these decisions.

9. What economic and market variables help you to arrive at your portfolio duration decision? How are these variables effecting your duration decision today? Please describe what your duration target is now and how you arrive at this decision.
10. Credit analysis is often very important to many fixed income firms. Please describe your approach to credit allocation and credit issue selection, including investment grade credit and high yield, if applicable. Please also provide the following information:
 - a. Please list all of the people responsible for credit analysis in your firm, their tenure with your firm, and their years of investment experience.
 - b. Corporate bonds suffered in relative performance in the recent financial crisis and subsequently recovered strongly. How has your credit analysis philosophy added alpha (risk adjusted returns greater than the market) during this time period? Please provide some examples.
11. What decision factors add value in the performance of your portfolios?
12. How much discretion is given each fixed income portfolio manager to buy and sell securities or to construct a portfolio?
13. Describe any quantitative/qualitative factors that are used in a buy decision and a sell decision.
14. Are there any securities or sectors not normally held for any reason due to your typical investment analysis?
15. What is your cash philosophy? What tools do you employ to manage cash? How is cash invested?
16. Do you optimize your composite against any particular index? If yes, which index do you optimize your client portfolio against?
17. What are your diversification guidelines?
18. What are the individual position weighting guidelines?
19. What are your high-yield guidelines?
20. Are there any sectors you specifically avoid? Why?
21. Do you use derivatives? Please describe in detail.
22. Please describe your firm's market outlook for the current year.
23. What is the typical holding period for the instruments used in this strategy? What is the annual turnover rate for this strategy?
24. Are there any capacity constraints for this strategy?

**SECTION 5
RISK MANAGEMENT**

1. Describe the portfolio management tools, quantitative models and/or techniques you use to define, measure and isolate specific risks. Please provide sample reports as exhibits.
2. Describe the risks inherent in your typical portfolio – identify the major factors to which the fund is exposed and how that exposure has changed over time. How do you manage/provide for tail risk?
3. Please articulate your competitive advantages in risk management.
4. What is the maximum exposure permitted to a single issue, issuer, industry, and sector?
5. What are the constraints on duration, convexity, credit quality, and yield curve?
6. Please provide any measures of risk exposures you feel are important over time.
7. How do you monitor relative and absolute risk?
8. Which systems are utilized to quantify your credit risk?
9. How do you manage counterparty risk?

**SECTION 6
RESEARCH**

1. Please list the systems that make your research process most efficient.
2. Please list all of the systems (proprietary & third party provided) that are utilized to construct and service your client accounts.
3. What percentage of your credit analysis is performed internally? How much is received from Wall Street research?
4. Do you have personnel dedicated to research on structured products (i.e. RMBS, CMBS, etc.)? If so, please provide their bio including their experience within credit analysis.
5. What is the main source of research used in the portfolio management process? Are portfolio managers responsible for providing research services to the firm? If applicable, describe your reliance on in-house research in the context of personnel skills and experience.

- For the subject product, provide approximate percentages of expected value added (alpha) versus the appropriate benchmark for the following factors:

Description	Weight (%)
Sector allocation	
Security selection	
Yield curve positioning	
Duration management	
Country/region selection	
Currency management	
Other Sources (Please specify)	
TOTAL	100%

SECTION 7 TRADING PROCESS

- 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.
- What percentage of total trades is executed electronically?
- How does the firm minimize trading costs?
- Describe how trading costs are monitored?
- Discuss how your firm monitors the quality of your execution. Do you use any transaction measuring service? If yes, please identify the vendor.
- How does your firm choose and retain brokers and how is “best execution” evaluated?

SECTION 8 DIRECTED BROKERAGE/SOFT DOLLARS

- Does your firm have any client-directed brokerage arrangements?
- Does your firm execute trades directly with minority, women or disabled owned business firms or via step-outs and correspondences? Please explain.
- The Fund’s Broker Dealer Utilization Policy states that subject to best execution, each fixed income manager shall direct 20% of eligible fixed income trading volume (par) to minority, women and disabled-owned business enterprises on an annual basis. Can your Firm comply with this policy goal?
- Do you currently have soft dollar arrangements for services with brokerage firms? If yes, please provide a list of services that soft dollars pay for and the percent of clients’ commissions used to pay for these services.
- Please provide a copy of your soft dollars policy.

SECTION 9 OPERATIONS

1. Please describe your procedures for sending/receiving transaction data from custodial banks, master recordkeepers, and security lending agents. Please identify the person in charge of this process and provide their biographical data.
2. Please describe your operational procedures for working with custodial banks and master recordkeepers to reconcile, positions, prices and cash balances. How frequently do you reconcile and how do you resolve discrepancies.
3. Please describe your procedures for processing any unexpected significant cash flow into or out of the account.

SECTION 10 CLIENT REFERENCES

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

SECTION 11 COMPOSITE ANALYSIS

Please include the following information regarding your composite as of the end of the last calendar quarter:

1. Please provide your composite quarterly returns since inception for the subject product (including 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 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.
4. How long have you been in compliance with GIPS performance standards? Do you have annual audits of your composite? If no, when was the last time your composite was audited?
5. 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.
6. How many accounts are not included in your composite, if any? Please describe the reasons for the excluded accounts and the total dollar amount.
7. Please provide a representative portfolio as of the end of last quarter.

SECTION 12
FEES

Please list how the following would apply to your separate account and commingled fund products (We recognize that some of this information is only applicable to separate accounts alone).

1. Proposed fee schedule:

<u>Market Value of Portfolio</u>	<u>Manager's Fee In Basis Points</u>
First \$ _____ Million	_____
Next \$ _____ Million	_____
Next \$ _____ Million	_____
(Additional Breakouts if needed)	

2. What is the minimum account size your firm will accept for a separate account? And for a commingled fund?
3. Provide your firm's fully discretionary investment guidelines for the product. Does your firm offer this product in a commingled fund?
4. Do you have a most favored client policy?
5. The Fund'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 Fund." Would your firm be able to make this certification?

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

Thank you for completing the questionnaire. You may email this questionnaire and your ADV Part II to our Consultant Search Contact, Yolanda Waggoner-Foreman at: research@e-grayco.com.