NEPC, LLC

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CONSULTANT

October 29, 2012

Mr. Michael Johnson, CFA
Senior Vice President
Gallagher Fiduciary Advisors, LLC
805 15th Street, NW, Suite 1120
Washington, DC 20005

RE: NEPC's Response to Follow Up Questions

Dear Mr. Johnson:

Thank you again for your consideration of NEPC for the FELRA & UFCW Pension Fund opportunity. Enclosed are our responses to the four follow up questions that were provided last week. We look forward to discussing our consulting capabilities with you on Thursday.

Best regards,

Enclosures

NEPC, LLC

YOU DEMAND MORE. So do we.[SM]

Gallagher Fiduciary Advisors, LLC

Follow Up Responses

From NEPC, LLC

October 2012

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Investment Consulting Services Proposal for the

Gallagher Fiduciary Advisors, LLC

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Investment Consulting Services Proposal for the

Gallagher Fiduciary Advisors, LLC

Response to Follow Up Questions

1. **Please provide any comments or concerns your firm may have with the current Investment Policy Statement and if so, what amendments/changes would you propose?**

   As the current policy statement targets a traditional consulting arrangement, NEPC would recommend adopting a policy outlining the roles and responsibilities of the Board and the discretionary provider. Our template discretionary consulting Investment Policy Statement is enclosed, and we would envision modifying this policy to reflect the goals and objectives of the Board for the FELRA & UFCW Pension Fund.

2. **After reviewing the enclosed info, please set forth how you would propose to structure the portfolio for each Fund (legacy and new). This explanation should include:**

   - **Asset allocation (including asset classes and asset subclasses), portfolio structure (number of managers, use of active vs. passive strategies), types of accounts (separately managed, limited partnership vehicles, commingled funds, etc)**
   - **Your proposed fee, assuming that type of portfolio**
   - **How you would envision transitioning the existing portfolio of the legacy Fund into the structure you propose and the associated costs and issues you anticipate**

   NEPC would recommend a unitized approach for custody / accounting, allowing the New Fund to take advantage of the asset scale of the Legacy Fund initially (and the Legacy Fund to take advantage of the New Fund's scale as the Legacy Fund winds down). We feel that having lower, tiered fee schedules with investment managers, access to high minimum investment managers (for the New Fund), as well as fewer custodial / trading costs will be a benefit to both Funds. We have experience using this exact structure for existing clients. We do not anticipate any transition issues under this proposed structure, as the Funds can remain with their existing custodian and investment managers. Recognizing that some changes to the investment manager line-up are likely, NEPC closely manages these changes using transition managers as appropriate consistent with best practices.

   With respect to asset allocation, we would recommend the asset allocation mixes proposed in the table below. The type of vehicle, number of managers, and active vs. passive decisions have been described for each asset class. The New Fund would be a portfolio that could achieve it's liquid exposures relatively quickly. However the implementation of the less liquid strategies would take additional time to build up as the asset base increases due to limited partnership agreement limitations. The proposed allocation should be viewed as a mid-long term goal, but the bulk of the exposure, with the exception of private equity, could be added quickly. Private equity exposure would need to come from fund of fund exposure or secondaries because of the relatively small initial portfolio.

The Legacy Fund allocation provided is a well diversified mix, and appropriately places a large premium on liquidity as the Legacy Fund has large liquidity needs. The net cash projections for the Legacy Fund indicate a zero balance in less than 10 years, so we would seek to avoid investment with long windows of illiquidity (ie. closed-end real estate, certain hedge funds, private equity, etc). While we can mitigate much of the liquidity issues through the unitized structure, we are very cognizant of the immediate liquidity needs and will position the Funds to accommodate these needs. You will aslo note the continued use of glabal asset allocation and risk parity as strong diversifying assets that help to mitigate some of the benfits lost when private equity and debt are reduced significantly.

We would customize the type of account (separate account, commingled fund, mutual fund, etc…) based on the specific asset size and liquidity needs. The following summarizes a likely solution, but our approach allows for flexibility with the implementation depending on client needs.

	Legacy	New	Type of account	Number of Managers	Active / Passive
Large Cap Equities	10.0%	10.0%	Separate	2-3	Active
Small/Mid Cap Equities	5.0%	5.0%	Separate	2	Active
Int'l Equities (Unhedged)	9.0%	9.0%	Pooled	2	Active
Emerging Int'l Equities	5.0%	5.0%	Pooled	2	Active
Total Equity	**29.0%**	**29.0%**			
Core Bonds	8.0%	8.0%	Separate	1-2	Active (some passive at times)
IG Corp Credit	6.0%	6.0%	Separate	1	Active
High-Yield Bonds	3.0%	3.0%	Pooled	1	Active
Global Bonds (Unhedged)	2.0%	2.0%	Pooled	1	Active
EMD (External)	4.0%	4.0%	Pooled	1	Active
Diversified Fixed Income	0.0%	3.0%	Pooled	1	Active
Total Fixed Income	**23.0%**	**26.0%**			
Real Assets (Liquid)	6.0%	5.0%	Pooled	2	Active
Real Estate	7.0%	7.0%	Pooled	+3	Active
Private Equity	0.0%	4.0%	Pooled	+3	Active
Private Debt	0.0%	4.0%	Pooled	+3	Active
Hedge Funds Low Vol	7.5%	5.0%	Pooled	2	Active
Hedge Funds Mod Vol	7.5%	5.0%	Pooled	2	Active
Total Alternatives	**28.0%**	**30.0%**			
Global Asset Allocation	5.0%	5.0%	Pooled	1	Active
Risk Parity	15.0%	10.0%	Pooled	2	Active
Total Other	**20.0%**	**15.0%**			
Total	***100.0%***	***100.0%***			

	Legacy	New
Expected Return (5-7 Years)	***6.6%***	***7.0%***
Expected Return (30 Years)	***7.3%***	***7.6%***
Standard Deviation	***10.0%***	***10.3%***
Sharpe Ratio	***0.54***	***0.56***

Fees: Our initial proposal of 10 (.0010) basis includes our offer for fully customizing both portfolios. This encompasses a full initial review of all investment / liability considerations for both plans, and ongoing implementation of best ideas within the outlined framework.

3. Discuss how you would address both the negative cash flows from the legacy plan as well as the incoming cash flows for the new plan and describe how cash flows for both would impact the portfolio structure both at the outset of the relationship and over time.

As mentioned above, NEPC would recommend a unitized approach for custody / accounting. This would allow for the best scale to be realized during the transition period, and allow the Funds to remain fully invested in NEPC's best ideas. We would carefully prepare for redemptions in less liquid strategies (mainly existing real estate and hedge fund exposure), to ensure that top down asset allocation is not implaced by cash flows in either fund. The keys to minimizing cash flow impact would reside with the winding down of the Legacy Fund, and the build up of the New Fund. Planning for cash needs would include a scenario analysis to ensure that we can meet requirements in any type of market environment.

4. Please provide a copy of the contractual agreement you propose.

Please find our standard contractual language enclosed.