# Food Employers Labor Relations Association
# and
# United Food and Commercial Workers
# Pension Fund

Response to
Request for Proposal

May 8, 2013

***Presented by:***

Graystone Consulting℠


**Steven D. Ford, CIMA®**
*Institutional Consulting Director*

**Michael L. Houser, CIMA®, CFP®**
*Institutional Consulting Director*

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Steven Ford,  CIMA
Michael L. Houser, CFP, CIMA
Institutional Consulting Directors
Graystone Consulting
125 West Street, Suite 201
Annapolis, MD 21401

May 7, 2013

Mr. William R. Jenson, President
Associated Administrators, LLC
FELRA and UFCW Pension Fund
4301 Garden City Drive, Suite 201
Landover, MD 20785-6102

RE: Investment Consultant Request for Proposal

Thank you for the opportunity to submit our response to your Request for Proposal (RFP) to provide investment-consulting services to the FELRA and UFCW Pension Fund. We appreciate the difficult process a plan sponsor faces when initiating a search for a new investment consultant. Here within, we have responded to each specific question in the Request for Proposal. Although we hope to have given you sufficient insight into our experience and capabilities, we have attempted to be as concise as possible in our responses. In summary, these are what we believe to be our distinguishing characteristics:

- Institutional investment consulting since 1973
- Maryland based team of highly experienced multiemployer plan consultants
- $160 billion institutional advisory assets
- Team of more than 50 research analysts
- Customized, objective and proactive investment advice
- Full disclosure and transparency in all practices
- Global presence designed and utilized to help recognize return opportunities and mitigate risk

Graystone Consulting is an industry leader in investment consulting and can help Taft-Hartley fiduciaries satisfy their ongoing investment and trustee responsibilities and, thus help reduce the personal risks associated with this complicated area of plan management. Your plan will receive the benefits of an industry leader and the expansive services available through Graystone Consulting.

We thank you again for the opportunity to present this response and look forward to discussing all of the enclosed in greater detail with you. In the event you have any questions or need any additional information please do not hesitate to contact us. We can be reached via telephone at (410) 972-3276.

Sincerely,

Steven D. Ford, CIMA
Institutional Consulting Director

Michael L. Houser, CFP, CIMA
Institutional Consulting Director

## A. Organizational Background

1. **Please provide the following information regarding your firm:**
   - a. **Firm Name**
     Graystone Consulting

   - b. **Contact's Name and Title**
     Steven Ford, CIMA
     and
     Michael Houser, CFP, CIMA
     Institutional Consulting Directors

   - c. **Contact's Mailing Address**
     125 West Street, Suite 201
     Annapolis, MD 21401

   - d. **Contacts E-mail Address**
     steven.d1.ford@msgraystone.com

   - e. **Contact's Phone and Fax Numbers**
     (410) 972-3276 voice
     (443) 458-7324 fax

   - f. **Firm's Internet Address (if any).**
     www.morganstanley.com/graystoneconsulting

2. **Please provide a brief history of the firm, including its year of organization and the ownership structure of the firm, including any parent, affiliated companies or joint ventures.**

   Morgan Stanley represents the union of two firms with strong traditions of financial leadership, Morgan Stanley Group Inc. and Dean Witter, Discover & Co., which merged in 1997 to form Morgan Stanley Dean Witter & Co. In April 2001, the firm changed its name from Morgan Stanley Dean Witter & Co. to Morgan Stanley. In 2009, Morgan Stanley combined its Global Wealth Management business with Citigroup's Smith Barney division to form Morgan Stanley. This joint venture is owned 65% by Morgan Stanley and 35% by Citigroup.

3. **List all owners of the firm including applicable ownership percentage, and include shore biographical descriptions of the owners.**

   Morgan Stanley is a publicly held company whose shares trade on the New York Stock Exchange under the symbol MS.

4. **Describe any ownership changes that have occurred within the last five (5) years, as well as anticipated changes in ownership, organizational structure or professional staffing.**

   Morgan Stanley has been a publically traded firm for the last 5 years. At this time, there are no anticipated changes in ownership or the organizational structure. Morgan Stanley and Graystone Consulting are constantly seeking to add the most talented professionals to our staff.

5. **Please provide the following information related to your firm:**
   - a. **Number of years providing investment consulting services**
     39 years

   - b. **Number of years providing consulting services to jointly-trusteed benefit funds**
     39 years

   - c. **General categories of services available to clients**
     Assistance in the Development or Evaluation of Investment Policy
     Active Style Allocation Advice
     Assistance in Manager Search and Selection
     Portfolio Analytics
     Performance Measurement

Manager Evaluation Research
Execution Services - (Included with Asset-Based Fee Arrangement only)

**d. Asset classes that the firm is currently monitoring for clients.**

Cash
Global Bonds
Investment Grade
- Ultra Short Duration
- US Core Fixed Income
- International Fixed Income

Inflation-Linked Securities
High Yield
Emerging Markets
Global Equities
United States Equity
United States Large
- Growth
- Value

United States Mid
- Growth
- Value

United States Small
- Growth
- Value

International Equity
Canada
Europe
- Europe ex UK
- UK

Developed Asia
- Japan
- Asia Pacific ex Japan

International Small Cap
Emerging Markets
Global Alternative Investments
REITs
Commodities - Diversified
Managed Futures
Hedged Multi-Strategy

**e. Total firm revenue**

$26,311,000,000 for the year ending December 31, 2012

**f. Percentage of firm's revenue from services to jointly-trusteed benefit funds.**

Due to the large scope of Morgan Stanley's business operations, we do not report revenues broken down to that which is specifically attributable to our Graystone Consulting business or specific client types. Morgan Stanley's audited Consolidated Statement of Financial Condition as of December 31, 2012, is available at www.morganstanley.com and are attached.

Each of our parent organizations' Annual Reports and financial filings are publicly available on their respective websites (www.morganstanley.com under "Investor Relations" or www.citigroup.com under the "Investors" section). In Morgan Stanley's Annual Report and financial filings, Graystone Consulting's revenue falls within Morgan Stanley Wealth Management Group which includes Morgan Stanley's interest in Morgan Stanley LLC ("MS"). For year ending 2012, reported revenues for the Global Wealth Management Group were $13.5B, with net global fee-based asset flows of more than $20B and total fee-based assets of $573B, representing 32% of total client assets.

In addition through an internal annual survey we track the number of institutional advisory clients and the number of assets under management. As of 12/31/11, Graystone and MS serves as consultant to over 3,047 institutional clients (including family offices and high-net worth individuals) representing approximately $167.8 billion in assets under advisement. Over the last five years, our model has attracted a growing number of clients, as evidenced by the fact that combined with our sister organization, the Consulting Group we are consistently ranked among the leading consultants in the industry. Please see the illustration below.

Please note that we are currently in the process of preparing account data as of 12/31/2012 but it was not available as of the submission date of this response.

| Year | Assets as of 12/31 | Accounts as of 12/31 |
|---|---|---|
| 2011 | $167,802,074,887 | 3,047 |
| 2010 | $151,279,478,842 | 2,770 |
| 2009 | $123,600,385,877 | 2,210 |
| 2008 | $89,244,475,123 | 1,600 |
| 2007 | $119,357,781,111 | 1,923 |

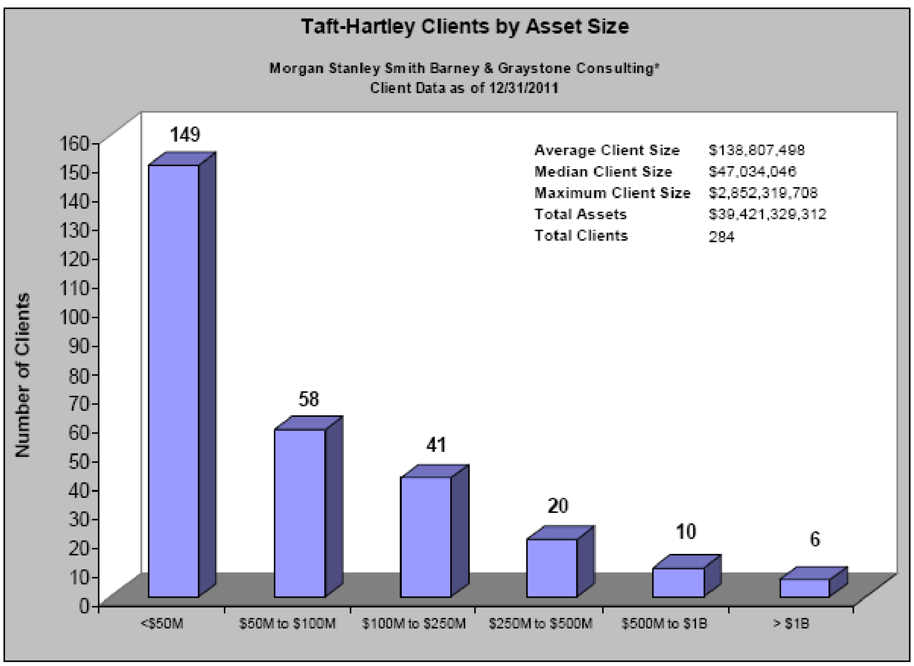
Institutional clients are defined as those with $10,000,000 or more institutional consulting assets.

**6. Please provide the following information related to your firm's current clients:**

**a. Total number of clients, including total assets of all clients**

3,047 institutional consulting clients. $167,800,000,000 total assets.

**b. Number of jointly-trusteed benefit fund clients, including the size (in assets) of each jointly-trusteed benefit fund client.**




Source: Consulting Group

*Graystone Consulting was known as Citi Institutional Consulting until June 1, 2009.

The information presented shows the total institutional consulting assets of Morgan Stanley Smith Barney LLC Global Wealth Management Group as of December 31, 2011. In June 2009, Morgan Stanley ("Morgan Stanley Parent") and Citigroup Inc. ("Citi") combined the Global Wealth Management Group of Morgan Stanley & Co. LLC ("MS&Co.") (formerly Morgan Stanley & Co. Incorporated) and the Smith Barney and related businesses of Citi affiliates.

**c. Percentage breakdown of clients by category (e.g. public pension funds, endowments, etc).**

Morgan Stanley Smith Barney & Graystone Consulting[1]
Client Data as of 12/31/2011

| Client Type | Assets as of 12/31/11[2] | % of Total |
|---|---|---|
| Corporation | $25,468,556,111 | 15% |
| Foundation/Endowment/Other NPO[3] | $25,134,418,552 | 15% |
| High Net Worth/Private Family Office | $26,444,354,070 | 16% |
| Taft Hartley | $39,421,329,312 | 23% |
| Public Fund | $17,390,237,776 | 10% |
| 401(k)/Defined Contribution | $18,730,290,577 | 11% |
| Hospital or Healthcare | $7,502,878,126 | 4% |
| Insurance Company | $3,793,343,937 | 2% |
| Other | $3,916,666,425 | 2% |
| *Grand Total* | *$167,802,074,887* | *100%* |

*[3] Other Non-Profit Organizations (NPO) include:*
*105 Educational Institutions with $5,642,367,732 in institutional consulting assets*
*79 Faith Based Institutions with $4,074,468,346 in institutional consulting assets*

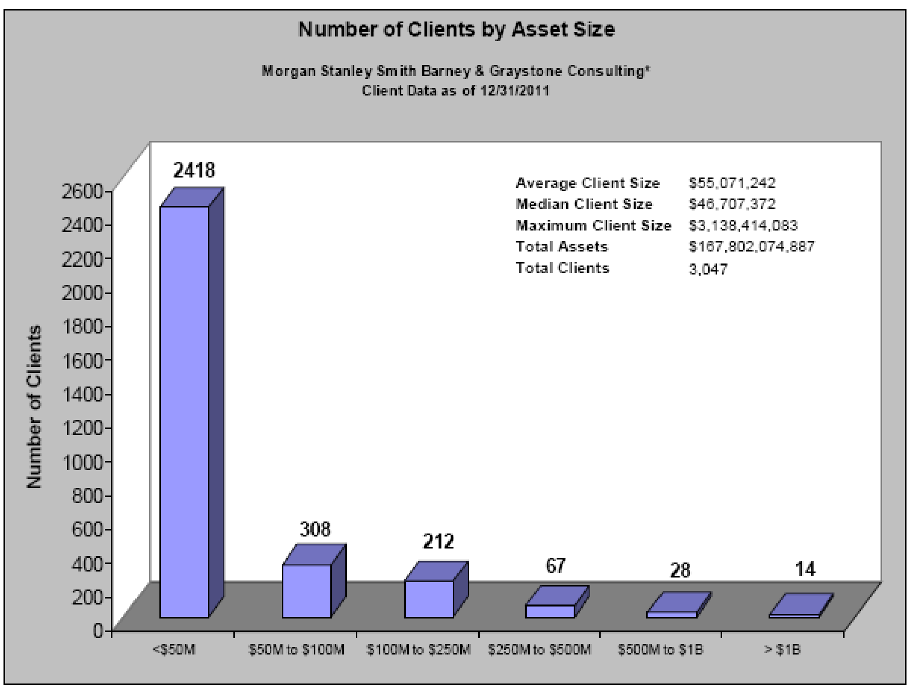
| Client Type | Accounts as of 12/31/11 | % of Total |
|---|---|---|
| Corporation | 448 | 15% |
| Foundation/Endowment/Other NPO[3] | 541 | 18% |
| High Net Worth/Private Family Office | 1074 | 35% |
| Taft Hartley | 284 | 9% |
| Public Fund | 189 | 6% |
| 401(k)/Defined Contribution | 285 | 9% |
| Hospital or Healthcare | 89 | 3% |
| Insurance Company | 36 | 1% |
| Other | 101 | 3% |
| *Grand Total* | *3047* | *100%* |

Source: Consulting Group

[1]Graystone Consulting was known as Citi Institutional Consulting until June 1, 2009.

[2]The information presented shows the total institutional consulting assets of Morgan Stanley Smith Barney LLC Global Wealth Management Group as of December 31, 2011. In June 2009, Morgan Stanley ("Morgan Stanley Parent") and Citigroup Inc. ("Citi") combined the Global Wealth Management Group of Morgan Stanley & Co. LLC ("MS&Co.") (formerly Morgan Stanley & Co. Incorporated) and the Smith Barney and related businesses of Citi affiliates.

**d. Distribution of all clients by asset size within the following ranges: (1) less than $250 million, (2) $1 billion, (3) above $1 billion**




Source: Consulting Group

*Graystone Consulting was known as Citi Institutional Consulting until June 1, 2009.
The information presented shows the total institutional consulting assets of Morgan Stanley Smith Barney LLC Global Wealth Management Group as of December 31, 2011. In June 2009, Morgan Stanley ("Morgan Stanley Parent") and Citigroup Inc. ("Citi") combined the Global Wealth Management Group of Morgan Stanley & Co. LLC ("MS&Co.") (formerly Morgan Stanley & Co. Incorporated) and the Smith Barney and related businesses of Citi affiliates.

e. **List of your firm's five (5) largest clients, including name, address, contact name, telephone number and asset size, for use by the Board as references.**

Due to confidentiality reasons, Graystone Consulting is unable to disclose client addresses, email addresses and telephone numbers at this time. However, if we are asked to attend a finals presentation, Graystone Consulting will provide the name and telephone number of the appropriate contact person for several client references. Our representative client list has been attached for your reference.

7. **Please provide details on the number, name and asset values of any terminated client relationships within the past five years, including reasons for the termination. Please provide the name and position of the applicable contact person and telephone number for each client.**

Graystone Consulting historically experienced an expected amount of client turnover. Reasons for account turnover include plan termination, mergers, drastic changes in overall objectives, market conditions, changes in investment philosophy, and dissatisfaction with services and/or fees. Due to confidentiality reasons, Graystone Consulting is unable to disclose client addresses, email addresses and telephone numbers of past clients.

8. **Please provide details on the number, name and asset values of any new client relationships gained in the past five years, including names and positions of contact persons and applicable telephone numbers.**

12/31/06 -- total institutional clients were 1,672
12/31/11 -- total institutional clients were 3,047

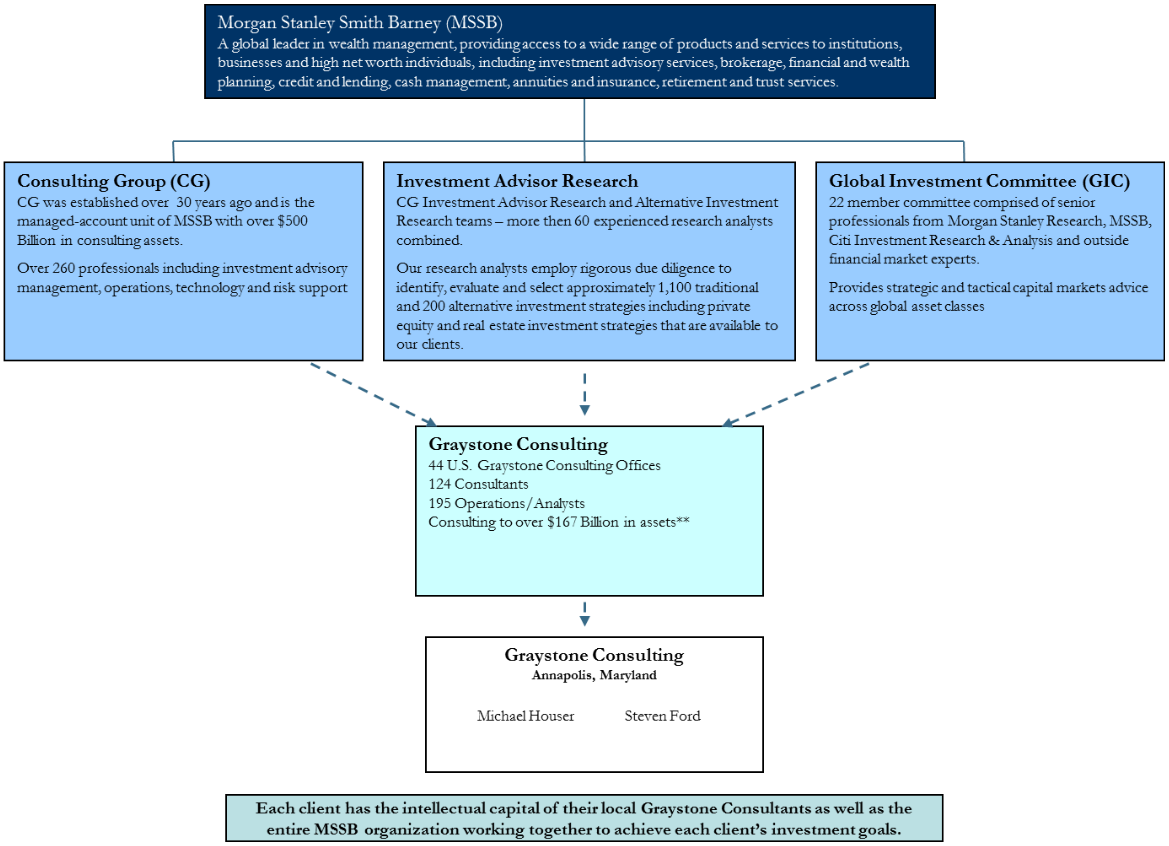
82% net increase in institutional client relationships over the last five years. Due to confidentiality reasons, Graystone Consulting is unable to disclose client addresses, email addresses and telephone numbers.

9. **Please provide a current annual report.**

Our statement of financial condition as of 12/31/2012 is attached. The most recently published annual report is dated 12/31/2011 which is also attached.

## B. Professional Staff

**10. Provide an organization chart showing functions, positions and names of all professionals within your firm. Include the total number of professional employees and total support staff.**




**The information presented shows the combined institutional consulting assets of Graystone Consulting, Consulting Group, and Morgan Stanley Global Wealth Manager Group as of December 31, 2011.

**11. Please provide the names of all professionals who will be assigned the Fund's account including designated primary and secondary consultants, as well as detailed biographical data on all such individuals. At a minimum include, the following information for each:**

**a. Length of experience in investment consulting services and with your firm**
**b. Names of currently assigned accounts, including total assets of each client**
**c. The highest educational degree and/or professional designation attained**

Primary Consultants:
**Steven D. Ford, CIMA**
Senior Vice President
Institutional Consulting Director
Consulting Experience: 12 years
Firm Experience: 29 years
Degrees/Designations: Certified Investment Management Analyst

Steve has been with Morgan Stanley and its predecessor firms for 25 years. He previously worked for E.F. Hutton & Company and has a total of 27 years of investment experience. Mr. Ford attended the University of Maryland with further study at the Wharton School of Business at the University of Pennsylvania. He is a Senior Institutional Consultant and actively consults to trustees and sponsors in the pension and non-profit arena focusing on asset allocation and performance attribution.

**Michael L. Houser, CFP, CIMA**
Senior Vice President
Institutional Consulting Director
Consulting Experience: 22 years
Firm Experience: 30 years
Educational/Professional Degrees: B.S. Johns Hopkins University, Certified Financial Planner, Certified Investment Management Analyst

Michael Houser was born and raised in the Chesapeake Bay Region. He attended Johns Hopkins University and the University of Maryland earning a B.A. Degree in Economics and a Minor in Finance. Mr. Houser has been with Morgan Stanley and its predecessor firms for 30 years. He attended the Wharton School of Business at the University of Pennsylvania where he received the Senior Consultant designation, a testament to his commitment to the consulting profession. Mr. Houser has devoted his entire career to helping trustees and sponsors meet their fiduciary responsibilities while maximizing their plan's assets. He has been consulting to Taft-Hartley benefit plans for 20 years.

<u>Secondary Consultant & Analytical Work</u>
**David M. Connolly, CFA**
Assistant Vice President
Institutional Consulting Analyst
Consulting Experience: 12 years
Firm Experience: 16 years
Degrees/Designations: B.S. Methodist University, Chartered Financial Analyst

David joined Morgan Stanley in 1997 and began working with the Houser Ford Group in 1999. As the technical and research analyst for the team, his expertise and responsibilities are in manager search and selection, asset allocation, and performance reporting. David graduated from Methodist College with a business degree and furthered his studies in finance and investment analysis by earning the right to use the Chartered Financial Analyst designation in 2002.

**12. Please explain how the team dedicated to the Fund's account would function, and the procedures for addressing the Fund's account when the primary or secondary consultant(s) are traveling or otherwise unavailable.**

The Annapolis, Maryland based Graystone Team is comprised of two Senior Consultants, an Analyst and an Operations Specialist. The Team is a local extension of Graystone Consulting and leverages the extensive resources and capabilities of the organization in delivering investment advice to our clients. Mr. Houser and Mr. Ford will be Co-Lead Consultants for the Pension Fund and will each be intimately involved in all aspects of the relationship. Both will attend Board meetings unless there is a scheduling conflict and only one can attend. The team's Analyst and Secondary Consultant, David Connolly, will attend meetings as needed.

Team Roles and Responsibilities:

Steven Ford
- Investment Strategy & Policy
- Asset Allocation
- Manager selection and structure
- Trustee Education

Michael Houser
- Investment Strategy & Policy
- Asset Allocation
- Manager selection and structure
- Trustee Education

David Connolly
- Investment Strategy & Policy
- Investment manager search and selection
- Asset Allocation studies
- Performance reporting

13. **Please indicate the turnover of professional staff (senior management, consultants and personnel dedicated to consulting services) in the past five years, including the name and position of each departing employee, the date and reason each employee left the firm, and the name of any replacement employee.**

In May 2012, Todd Turchetta was appointed to succeed Brian Watts as Director of Institutional Investments. Before joining Graystone in May 2012, Todd was a portfolio specialist for the Fund of Hedge Funds group at Morgan Stanley Alternative Investment Partners, focusing on institutional clients. He joined Morgan Stanley in 2010 and has more than 26 years of relevant industry experience. Before joining the firm, he was a managing partner/portfolio manager for TGT Capital Partners LP, a U.S.-based hedge fund and fund of funds. Prior to that, he managed client capital at American Securities, using equity, option and fixed income strategies for the risk arbitrage hedge fund. Todd received an A.B. in both engineering and economics from Brown University and an M.B.A. from Columbia University.

In July 2011, Paul Ricciardelli was appointed to succeed Glenn Regan as Director of Investment Advisor Research when Glenn assumed the role of Director of Global Investment Strategies within our organization. As head of Investment Advisor Research for Morgan Stanley Paul oversees the research and evaluation process for investment management firms across MS platforms. Prior to this Paul spent 12 years at Merrill Lynch in a leadership capacity across the firm's investment manager research group. Paul is a CFA Charterholder, graduated from Boston College with a B.S. and received his M.B.A. from Ohio State University.

In April 2011, Robert J. Mandel was appointed to succeed Tom McAuliffe as Director of Graystone/Institutional Consulting. Bob previously served as lead counsel for MS's investment advisory and financial planning businesses, and prior to joining MS, he was a Managing Director and Deputy General Counsel at Citi Smith Barney. Prior to joining Citi Smith Barney in 2000, Bob was a partner of the law firm Neal, Gerber & Eisenberg in Chicago, IL. Bob graduated from Hofstra University with a BBA and from Hofstra U. School of Law with a JD.

In February 2011, Jason Moore was appointed to succeed Tom Butler as Director of Platforms and Investments when Tom Butler assumed the role of Chief Operating Officer for Investment Strategy Solutions and Head of Business and Research Content Management within our organization. Jason Moore began with Morgan Stanley and it predecessor firms, in 1995. Jason held various positions in operations, portfolio management, and program management up until 2010. In 2010, Jason left Morgan Stanley and went to Bank of America Merrill Lynch to manage their separately managed account, unified managed account and mutual fund advisory businesses as well as advisory program development. Jason returned to Morgan Stanley's Consulting Group in 2011 as Director of Consulting Group's Product and Platforms to oversee the firm's separately managed account, unified managed account, mutual fund advisory, non-discretionary advisory, and financial advisor discretionary platforms. Jason earned both his BSBA and MBA degrees from the University of Delaware. Jason holds his Series 66 and 7 licenses.

In September 2010, James F. Walker, was appointed to succeed Jim Tracy, as the head the Consulting Services Group when Jim assumed the role of Director of National Sales and Business Development within our organization. Prior to taking this role Mr. Walker served at Morgan Stanley as Chief Operating Officer of Investment Strategy and Solutions, with responsibility for strategy, coordination and overall business leadership. Prior to this position, he was Director of Finance, Risk and Strategy for Citi Global Wealth Management Investments, having joined Citi in 2006 as COO of Investment Advisory Services. Earlier, Mr. Walker held a succession of leadership positions over 20 years with Merrill Lynch's Global Wealth Management Group, including Chief Administrative Officer for the Global Private Client business, complex manager positions in Wellesley, MA and Norfolk, VA, and Midwest regional sales manager. He began his career in 1985 as a Financial Advisor in Washington, D.C. and Northern Virginia. He received his B.A. in economics from Catholic University of America, and attended the Massachusetts Institute of Technology as a Sloan Fellow, where he received a S.M. in management science and continues as a lecturer. He is a Certified Investment Management Analyst and member of the Investment Management Consultants Association.

14. **Within your firm, what is the average number of clients per consultant?**

At the Annapolis Graystone Consulting location, we currently have two Senior Consultants covering 18 institutional client relationships for an average of 9 clients per consultant. Our goal in building and growing our business is to limit our client growth so that we can provide the highest level of hands-on service in the investment consulting industry. We believe it is reasonable for each consultant to service no more than 15 relationships. We are confident that not being spread too thin and being actively involved with our clients will result in value added results for our clients' investment portfolios.

15. **Please provide a brief description of your firm's compensation arrangement for professional staff, including any incentive bonuses and how such bonuses are awarded. Please indicate if any professional staff has an ownership stake in the firm or otherwise shares in the firm's profits, and if so, please provide details.**

    Employment classifications determine compensation policies. Consultant compensation is partially based on the fees paid by the clients for whom they are responsible. If business conditions permit, and depending on Morgan Stanley's performance, the employee's business-unit performance and the performance of the individual, employees may receive a bonus. The decision of whether to pay or not pay a bonus, and, if to pay, how much, is at the sole discretion of management. The firm reserves the right to pay all or part of bonuses in a form other than cash including, for example, a contingent, deferred or restricted stock award(s) and/or stock options. The amount of the bonus, if one is granted, shall be determined by management based upon a collective assessment of an employee's performance, the performance of the business group, the performance of the division and the performance of the parent organizations.

16. **Please discuss your firm's plans for future growth in the benefit consulting area.**
    Graystone Consulting is a provider of investment consulting services. We have no plans to enter the benefit consulting business.

## C. Services and Capabilities

**17. Describe the range of consulting and other financial services that your firm offers.**

Assistance in the Development or Evaluation of Investment Policy
- Achieve committee consensus
- Establish investment objectives
- Review policy constraints
- Establish customized performance benchmarks
- Define strategic policy allocation

Active Style Allocation Advice
- Quarterly market commentary
- Global Investment Committee outlook
- MS recommended asset allocation strategy

Assistance in Manager Search and Selection
- Customized manager searches
- Proprietary manager research for covered investment products

Portfolio Analytics
- Portfolio analyses or portfolio characteristics reports
- Performance attribution reports (on selected investment products)

Performance Measurement
- Customized performance reports
- Quarterly reporting
- Absolute and risk-adjusted performance

Manager Evaluation Research
- Evaluation of investment managers on Investment Advisor Research platforms
- Published manager research reports on those platforms

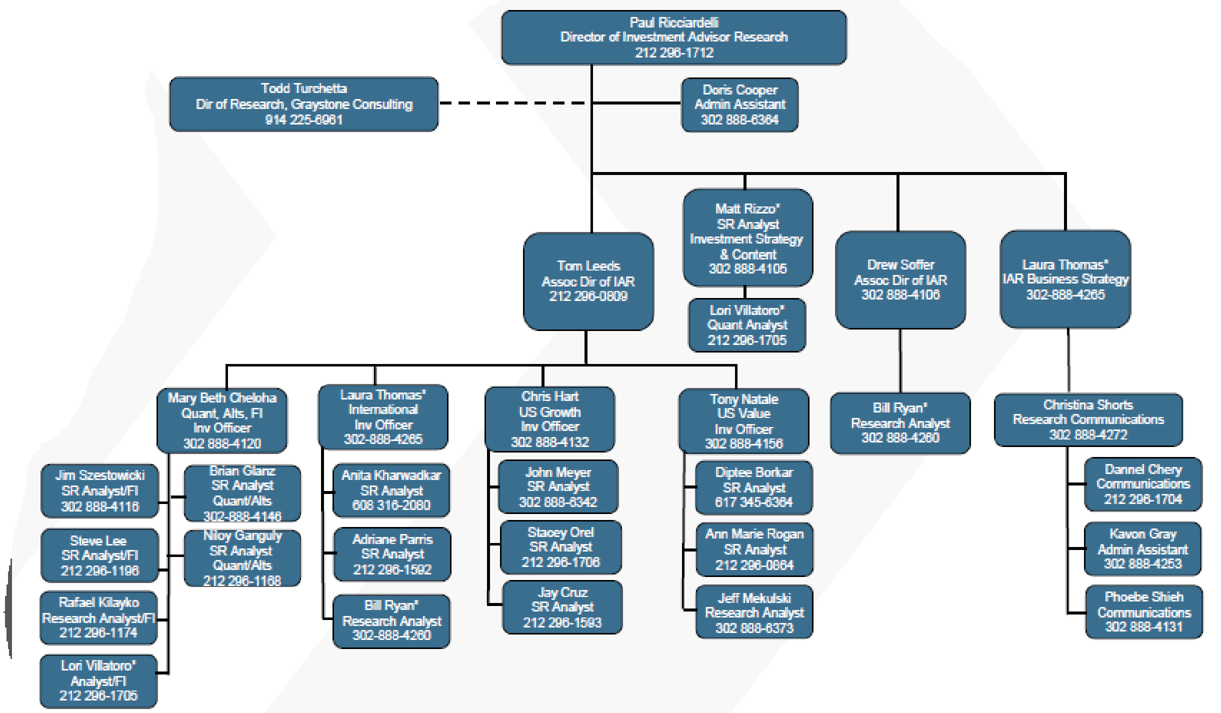
Execution Services - (Included with Asset-Based Fee Arrangement only)
- No commissions on stock transactions effected through Morgan Stanley, LLC.
- No markups or markdowns on bond transactions effected through Morgan Stanley, LLC.

**18. List your firm's lines of business and the appropriate contribution of each business to your firm's total revenue and profits. If the firm is an affiliate or subsidiary of an organization, what percentage of the parent firm's total revenue and profits does the subsidiary or affiliate generate?**

Graystone Consulting's sole line of business is investment consulting on a non-discretionary or discretionary ("outsourced CIO") basis.

Due to the large scope of Morgan Stanley's business operations, we do not report revenues broken down to that which is specifically attributable to our Graystone Consulting business. Each of our parent organizations' Annual Reports and financial filings are publicly available on their respective websites (www.morganstanley.com under "Investor Relations" or www.citigroup.com under the "Investors" section). In Morgan Stanley's Annual Report and financial filings, Graystone Consulting's revenue falls within Morgan Stanley Wealth Management Group which includes Morgan Stanley's interest in Morgan Stanley LLC ("MS"). For year ending 2012, reported revenues for the Global Wealth Management Group were $13.5B, with net global fee-based asset flows of more than $20B and total fee-based assets of $573B, representing 32% of total client assets.

**19. Describe the internal structure, organization, and capabilities of your firm's research department (if no separate department exists, describe how this function is performed).**




Graystone Consulting is committed to delivering high quality research to our clients. Our clients' vested interests are our top priority and it is a mission of the firm to pursue this effort with objectivity and passion. This is demonstrated by the fact that we believe very few competitors maintain the same level and depth of resources dedicated to investment manager research. While employing a large staff is important to maintaining breadth of coverage, it is an ancillary factor when it comes to distributing valued and actionable research; the content and insight offered in our manager research reports is a clear differentiator and a competitive advantage of the firm.

Depth of product coverage: Consulting Group Investment Advisor Research covers over 1,100 investment products.

Manager research reports are available to our institutional clients for the investment products we cover. The universe of investment options available to institutional investors today is vast, and new options are constantly emerging. Our manager research team has reviewed numerous products and only recommends investment products that meet our standards. Having access to a broad selection of investment products is important for any institutional investor in order to construct an effectively diversified portfolio and to take advantage of unique opportunities. Your Graystone Consultant will work with you to narrow down our broad universe of selections, so you can be confident in the choices you make for your portfolio.

Provide timely, actionable tactical manager recommendations:

Capital markets are dynamic, and the result is that certain market events and cycles inevitably occur which present unique opportunities for institutions. As an institutional investor, it is important to have an advisor that can help you recognize which of these might be actionable for your portfolio. Our Tactical Opportunities List is comprised of investment products from our Approved and Focus Lists that we believe could benefit from expected market trends, such as outperformance by a particular asset class or investment style. These investment products are added to the Tactical Opportunities List, indicating our belief that they may deliver above average performance over the shorter term, typically defined as less than three years.

**20. Describe the manner in which internal and external resources and sources of information are used in the research process. How does your firm integrate internal and external research?**

The firm's Investment Advisor team generates published research opinions on investment products offered through its advisory platforms. The majority of manager research is conducted in-house; however, this group will utilize third party research as a source of information to supplement this internal effort. Investment ideas are generated through multiple sources including applications such as PSN or Zephyr. Additionally, investment ideas developed by our analysts, many of whom have a long tenure in manager research, deep knowledge of the industry and an extensive network of industry contacts.

**21. Has your firm conducted an asset/liability study for a jointly-trusteed benefit fund? If so, how many has it conducted within the last three (3) years, and provide a written sample of a recent study performed by your firm for a client with a similar profile as the Board.**

Liability modeling is the domain of professional actuaries. We do not serve our clients in an actuarial capacity. However, working in conjunction with specific actuarial assumptions we are able to develop asset/liability studies that, based on relevant historical data and projected actuarial assumptions for benefits, can assess the probability of funding the future liabilities employing several different investment strategies. Graystone Consulting works with several providers, whose proprietary asset/liability modeling software is used to generate customized asset liability studies for our clients.

Most defined benefit pension plans measure asset performance chiefly by ranking their overall returns against a peer group. However, comparing your plan's investment results to what every other plan's investments are doing does not assess the true risks associated with that particular defined benefit pension plan. The true risk elements might include contribution volatility, unfunded liability disclosures, and avoidance of extreme downside deviations in any key valuation result. The choices as to the risk elements can be set for the plan, and whatever is selected is then customized into our system.

Our asset liability model is an interactive, stochastically-based asset liability optimizer tool that provides asset and liability analysis of defined benefit pension plans for Single Employer, Multiemployer and Public funds. The model uses capital market assumptions for desired assets classes to assess the true risk of investing in a given portfolio option. Then, for each asset allocation chosen for testing, we perform many stochastic forecasts for a time horizon of up to 20 years, storing the key results (the true risk measures) from each forecast in a database for future sorting and presentation.

The output from the model is presented in a report, which normally contains the following sections:

Deterministic Projections – shows trends in the plan assuming a constant rate of return (no investment return volatility) and provides a reference for the later projections.

Stochastic Projections – a range of results is shown for each true risk measure, showing results for each tested portfolio ranging from worst result to best result through quartiles. Typically all portfolios are shown at five-year intervals through the projection period.

Detailed Stochastic Projections – the most likely candidates for the best portfolio are then compared at each year of the projection.

Summary and Recommendation – the report summarizes what we tested and recommends a portfolio giving reasons for the recommendation.

Appendix – describes the capital market assumptions and methods used in the study.

<u>Multiemployer Plans</u>
While the Pension Protection Act only tinkered with the way that pension funding calculations are performed in multiemployer plans, it introduced additional rules based on the funding level of the plan and whether a funding deficiency is likely to arise. The true risks most commonly modeled by a multiemployer plan are as follows:

- PPA Status, Critical, Endangered or Safe
- Minimum Funding Credit Balance
- Funding Ratio

22. **Describe your firm's process for determining the appropriate asset allocation for a jointly trusteed benefit fund. At a minimum, include the criteria on which you base your assumptions. Also describe your process for determining an analyzing a client's investment structure. Describe your process for recommending modifications to the portfolio structure as warranted by changes in the market place or benefit obligations/assumptions.**

The appropriate asset allocation is determined by the actuarial assumption, time horizon, liquidity needs, and risk preferences of the Fund. Refinements to the allocation are made after thoughtful consideration of short and intermediate term influences, market conditions, and return expectations. Graystone Consulting uses research produced by one of the deepest asset allocation teams in the financial industry which is known as the Morgan Stanley Wealth Management Global Investment Committee ("GIC" or "Global Investment Committee"). The Global Investment Committee conducts a disciplined process of fundamental research and a comprehensive analysis of economic and market conditions. The Global Investment Committee believes that investment success can be achieved through a disciplined strategy that combines long term exposure to an intelligently constructed blend of asset classes with systematic exploitation of insights and opportunities that are shorter term in nature. The risks of both pillars of this strategy are carefully managed to align them with their potential for delivering performance. We refer to this approach, which combines long term strategic positioning with short term tactical portfolio adjustments, as dynamic asset allocation.

Graystone Consulting recommends clients review their asset allocation guidelines when there is a material change to the client's circumstances or there's a material change in the economic environment. A material change in the client's circumstances may include but is not limited to a change in the client's investment objectives, time horizon, risk tolerance, asset/liability structure, cash flow or spending policy. Additionally our Graystone Consultants typically meet with our clients on a quarterly basis to review asset allocation status versus guidelines.

23. **Describe your firm's process for developing, recommending, and maintaining a client's investment policy, strategy and asset mix, including rebalancing.**

We work closely with the Board to develop an investment policy statement which is consistent with the Fund's investment guidelines and objectives. This is most often accomplished by presenting the Board with a questionnaire, which will help to develop a consensus view of members' attitudes on the long-term economic climate, the Fund's income needs, desired asset allocation and degree of diversification, perceived risk tolerances, policy constraints, and other pertinent investment considerations. From the consensus opinion, an overall risk tolerance is developed for the Fund.

The policy constraints established in the consensus will play an integral role in the creation of investment policy and the implementation of the investment strategy. We will evaluate constraints such as limitations or exclusions of particular securities, asset classes, investment styles, or particular investment vehicles.

The next step in evaluating the investment policy is to review its investment objectives; that is, the Fund's absolute needs for liquidity, income, growth of income, growth of principal and preservation of capital. We will balance all of these needs and develop an investment strategy that will seek to maximize the probability of achieving those needs. Since your investment strategy needs a benchmark against which results can be measured, we will develop a customized performance benchmark for the aggregate Fund. If your investment strategy calls for more than one investment manager or vehicle, we will create benchmarks for each sub-fund of the Fund by which each respective manager's performance will be assessed.

The Consultant will review the Fund, and make suggestions as to possible modifications to the asset allocation, selection of managers, or the investment policy itself. However, unless the client has engaged our discretionary services, the ultimate decision to enact a change to the investment policy, the investments, or asset allocation of the Fund in order to be consistent with the investment guidelines rests with the Board.

In today's complex market environment, maintaining a sound, well-diversified investment portfolio is a complex process. Over time, changing market conditions can lead your plan's portfolio to stray from its original asset allocation strategy, leaving your portfolio exposed to more risk than planned.
Careful analysis and periodic course corrections can help reduce such risks. This process is known as portfolio rebalancing. Graystone Consulting can help you evaluate key rebalancing strategies, which include periodic, threshold, range, volatility-based and active rebalancing, among others, to carefully select the appropriate option that best suits the

needs of your plan and its participants. For more information on rebalancing, ask your Institutional Consulting Director for a copy of our white paper, The Art of Rebalancing.

24. **Describe how benchmarks are chosen or developed and how performance is compared to similar portfolios. Can your firm provide custom benchmarks? Please indicate whether the firm has ever developed benchmarks for a jointly-trusteed benefit fund and if so, provide a description of the benchmarks developed and the method used in developing the benchmarks.**

Graystone Consulting assigns a broad market and style-specific benchmark to each investment manager. Style-specific benchmarks are assigned to managers based on their style sub-classification (such as small/mid value or large cap relative value) and verified by measuring the closeness of fit to the benchmark in Zephyr (style based analysis tool).

We build custom benchmarks for all of our clients (including our many jointly-trusteed benefit funds) to measure their aggregate fund performance. These blended benchmarks reflect the true asset allocation of the fund on a day-weighted basis.

Graystone discourages the use of universes for relative benchmarking purposes. One of the attributes of a true “benchmark” is that it should be investible. Peer universe comparisons do not meet this criteria. Realizing that each fund has unique objectives, your assets should be measured against a benchmark that reflects your investment goals. However, we understand that many clients utilize universe comparisons for the purpose of measuring performance relative to their peer groups.

Graystone has developed custom universes that provide appropriate manager comparisons. Our custom universes sort the Morningstar® and Informa Investment Solutions, Inc. databases according to the relative return characteristics of each manager with in the universe. This reduces the effect of manager style drift by grouping managers according to the behavior of their returns rather than by their pre-stated discipline or quarter-ending holdings.

25. **Does your firm maintain internally or otherwise have access to a jointly-trusteed benefit fund database for peer group comparison purpose? If so, please describe such database in detail, including (1) the composition of the database (especially in terms of its representation of the jointly-trusteed pension fund universe), (2) how the database is maintained and updated, and (3) how the database can be used to compare and rank the Funds in terms of risk, returns, asset allocations, and portfolio structure.**

We utilize the Wilshire peer universe for Taft-Hartley comparison purposes. This universe includes only multiemployer benefit plans. As of December 31, 2012, the universe had the following characteristics: Total Plans: 456, Total Assets: $138,299,507,300, Average Assets: $303,288,393, Median Assets: $55,757,988, Maximum Plan Assets: $17,777,164,566, Minimum Plan Assets: $30,077.

The database is updated quarterly and can be used to rank the Fund in terms of risk and return. Asset allocations and portfolio structure vary widely across the plans included in the universe.

26. **Describe in detail the experience and expertise of your firm, and the primary consultant in particular, in alternative investments, including valuing hard-to-value assets.**

The primary consultant has been analyzing, recommending and monitoring alternative investments in our client portfolios since 1992, adopting non-correlated strategies long before it was a popular investment.

The Investment Advisor Research team for alternative investments employs a two-pronged approach, which consists of: 1) an investment review and; 2) an operations-risk review. These reviews are conducted upon third-party hedge funds, funds-of-funds and real estate private-equity fund managers.

The team is comprised of Investment Analysts and Operations Risk Analysts. Each group uses a specific skill set to assess investment managers across various dimensions. Investment Analysts evaluate the manager’s investment capabilities and processes, as well as the performance history of a fund. Operations Risk Analysts assess the organization’s business infrastructure and evaluate its ability to support all operational aspects of a fund.

Both the Investment Analysts and Operations Risk Analysts perform initial due diligence and ongoing monitoring of each manager. Each manager review differs depending on the manager’s specific circumstances.

- Experience: Approximately $46 billion of client assets invested in alternative investment strategies
- Industry Leading Platform: Approximately 150 unique alternative investment strategies available2
- Intellectual Capital: Approximately 100 dedicated professionals
- Unique Capabilities: Offering funds through direct investment, fund sponsorship and fund creation/management
- Manager Access: Leading affiliated and unaffiliated investment managers
- Fund Manager Selection: We leverage the expertise of over 40 dedicated Alternative Investment Research Analysts for fund manager due diligence

**27. Describe your firm's process for the evaluation and recommendation of investment managers for a client, including a sample due diligence matrix if applicable. Include how the firm evaluates a manager's performance, personnel and organization, investment philosophy, investment style(s) and products, research and/or modeling capabilities, financial condition, client service and fees. How is the accuracy of the performance numbers determined?**

Our Investment Advisor Research team has developed a rigorous, in-depth process for evaluating investment managers, mutual funds and exchange-traded funds. Through this process, our Graystone Consultants and clients have access to a wealth of detailed information about the investment products available through our programs.

Our analysts examine a range of issues they believe are indicative of potential investment manager or fund quality – such as investment philosophy, buy and sell disciplines, research capabilities, business operations and the qualifications of key personnel. Our emphasis is threefold:

- We seek to offer clients a diverse selection of independent, third party investment managers who meet or exceed our quality standards;
- We seek to provide practical, actionable advice that will help clients select the most suitable investment products and effectively monitor their ongoing performance;
- Finally, where appropriate, we seek to help clients take advantage of shorter term market trends that we believe may favor specific investment products.

To ensure consistency and comparability, we seek to apply a common research evaluation framework to all the investment products that we evaluate, which include separately managed accounts, mutual funds and exchange-traded funds.

Our Manager Research Fundamentals:

- Whether our analysis results in an investment product's placement on our Approved or Focus Lists, our research process entails a common framework of analysis. As part of the evaluation process, Investment Advisor Research analysts examine past investment performance; however, the core of our research process is based on the evaluation of five critical qualitative factors:
- Personnel. The credentials and expertise of key investment professionals are any investment management firm's most important assets. Depth of experience and a history of success weigh heavily in our evaluation.
- Investment Process. Investment managers should have a coherent system for generating ideas and constructing portfolios. The latter may include limits on sector or industry exposure, volatility guidelines or other constraints.
- Research Capabilities. While we have no bias for or against any particular research approach, we expect investment management firms to possess adequate resources to effectively apply their process. For example, if the stated goal is to identify fundamental value, we may review the number of companies each analyst is expected to cover.
- Implementation. Investment managers should deliver results to clients that are consistent with their stated investment processes.
- Business Operations. Clients need a reasonable assurance of the firm's commercial viability. Relevant factors include the trend of assets under management, growth or stability of personnel, and legal or regulatory issues, among other business and management results.

Our Investment Advisor Research department uses a multi-step process to narrow the universe of thousands of registered investment managers to a much smaller group of recommended managers.

Our process is underpinned by a set of key beliefs:

- We believe that past performance does not predict future success.
- It is important to distinguish portfolio returns and performance. We define these terms as follows:
- Returns are absolute numbers. Typically, they are expressed without mention of risk or a relative comparison.
- Performance of an investment product can be presented against a reasonable benchmark or on a risk-adjusted basis where returns are typically scaled using a measure of volatility. These returns must be evaluated over multiple time segments to eliminate the possibility of a time period bias.
- We believe that the quality of a manager's personnel, process, and organization is the best indicator of potential future results. Consequently, we focus on qualitative analysis in order to identify those investment managers that are best suited for our research universe.
- Our investment manager research and selection process should not be interpreted as short term performance forecasts.
- We believe there is a need for objectivity in the analysis of active and passive management.

In addition to our beliefs, we have certain goals that drive the manager research process:

- Due Diligence: While our manager research process has grown to include many other components, the ongoing evaluation of the investment managers in our universe remains a primary focus of our process.
- Timeliness: A major and ongoing goal is to provide up-to-date research materials.
- Differentiate Managers: A primary goal of this process is to clearly identify key and unique qualities of a particular investment product and clearly communicate how these characteristics differ from peer strategies in the same style category and the benchmark.
- Separate coincidence from skill: We seek to understand the sources of performance. Outperformance in a given quarter could be solely the result of chance, i.e., coincidentally being in the right place at the right time. The right place might be the appropriate capitalization range, growth sector, or industry. Similarly, being in the wrong place at the wrong time is not necessarily an indication of a lack of skill. Moreover, we place significant emphasis on understanding investment managers' decisions that drove their current positions and if these decisions are consistent with their stated investment process.
- Verify the process: The implementation of investment decisions should be constantly tested against our understanding of the investment manager's investment process. This focus allows us to constantly expand our knowledge of the manager.

We employ the following guiding principles in our analysis:

- Descriptive statements relating to an investment manager should be readily verified through supporting information.
- Evaluative statements should have some grounding in well-supported descriptive statements.
- Through our dynamic involvement with investment managers, we will continually seek to test and refine our own analytical process.

The overarching goals of our investment manager research are to: help investors maintain confidence in their investment decisions; demonstrate a prudent research process; and help clients realize their investment objectives.

In seeking to fulfill all of these goals, we seek to:

- Identify managers with investment strategies that are compatible with clients' return objectives and tolerance for risk.
- Recommend managers that have—and we expect will continue to have—a consistent, disciplined investment process.
- Monitor and evaluate manager quality and performance on an ongoing basis.
- Inform clients of material changes, such as the departure of key personnel or a modification of investment process, which could have the potential to influence portfolio performance.
- Identify managers whose investment strategies and personnel have the potential to attain positive risk-adjusted performance.

**28. How many manager searches has your firm conducted in the last three (3) years, broken down by asset class? Of these searches, have any recommended managers that were hired by clients been subsequently terminated? If so, how many and why?**

We typically conduct over 100 manager searches per year covering every major asset class. Managers are terminated for a variety of reasons and occasionally within the first three years of being hired. Within the first three years of being hired, it is unlikely that an investment manager would be terminated for performance reasons because we believe that an investment manager should be given a full market cycle before making a performance based decision. However, we have had instances where a material change has happened with a recently hired manager such as change in personnel, change in style/philosophy, or other qualitative occurrences that cause our research team to lose confidence in the manager and subsequently change the research status to “not approved”.

**29. Describe your firm’s manager database and how your firm gathers, verifies, updates, maintains and analyzes the data collected on managers for the database. How many managers are contained in the database? Describe the screening variables and capabilities of the database. Describe the capability of providing custom client reports.**

For separately managed accounts, Investment Advisor Research leverages a proprietary algorithm that evaluates numerous factors to develop an initial assessment of the manager. The proprietary algorithm is housed in an application called Informa. Informa is a third party vendor and collector of investment manager information. The Informa database contains information compiled from more than 1,300 investment managers throughout the world encompassing over 7,800 various products including (as of 6/30/12):

3,118 U.S. Equity Products
1,528 U.S. Fixed Income Products
1,448 Non-U.S. and Global Equity Products
610 Balanced Products
289 Non-U.S. Fixed Income Products

The database includes not only historical investment performance results, but also information on each manager’s investment style, minimum account size, assets under management, number of accounts managed, founding date, personnel, contact information, ownership structure and denotes whether the product is accepting new accounts. The database also includes a narrative on the firm level and the product level, as well as a composite description.

Investment Advisor Research also requires the investment manager to complete an RFI (request for information) prior to review. This is independent of the Informa algorithm. The RFI includes pertinent information that assists in the analysis of the investment manager. Investment Advisor Research may also request other information from the investment manager, as needed, in order to complete its assessment. As part of the ongoing review process, a quarterly questionnaire is sent to all investment managers.

Custom reports can be provided on investment managers using hundreds of different statistical measures and time periods.

**30. Describe the experience and capabilities of your firm, and the primary consultant in particular, in analyzing and monitoring managers. Specifically, include the monitoring of performance, risk style integrity, contract compliance, account restrictions, activities creating potential conflicts of interest, reporting requirements, and trading costs (including foreign exchange).**

Our firm has more than 30 years of experience in analyzing and monitoring managers. The Graystone Consultants that will be working directly with the Trustees have been analyzing and monitoring investment managers for over 25 years. Both Consultants hold the Certified Investment Manager Analyst (CIMA) designation which is a testament to their expertise and commitment to the highest level of investment manager evaluation. We have the staff, experience, technology, and expertise to monitor every aspect of an investment manager for our clients. It is part of our normal, ongoing process with our recommended managers to monitor performance, risk, conflicts of interest and a variety of business integrity characteristics.

**31. Describe the experience and capabilities of your firm, and the primary consultant in particular, in analyzing and monitoring minority management firms and brokerage firms.**

We apply our extensive research process equally across all investment managers including those owned and operated by minorities. We have the capability to search and evaluate minority-owned firms via the following categories: American Indian/Alaskan Native, Hispanic, Women, Asian, African American, Disabled, and Disabled Veteran.

**32. Discuss in detail your performance attribution analysis. How does it handle alternative investment portfolios?**

Part of our performance analysis is separating the various components of portfolio return. We first establish a client’s strategic allocation. We measure the client’s current allocation versus the strategic for value added from recommended portfolio shifts. We then review investment managers' value added above their given benchmark. The investment manager's analysis will also typically include a review of value added from both sector allocation and security allocation. We recognize that reviewing investment manager returns in isolation can provide limited information, so we also analyze various risk aspects of the portfolio; which shows how much risk is taken for a level of return. We believe this approach provides advanced insight into the overall portfolio and aids in efforts to construct the optimal one.

**33. Please provide a sample quarterly performance report. How soon after quarter-end is the report available? What is included in the standard reporting package to your clients?**

A sample report is attached. Reporting availability varies widely depending on custody location, benchmark availability and asset valuation complexity. Typically, fully benchmarked reports are available 10 business days after the quarter end.

Our "standard" reporting package is quite extensive and covers asset allocation, performance, risk, and statistical analysis of the total fund, various sub-composites and each individual manager.

Asset allocation
- Asset Class
- Segment Level
- Manager Allocation
- Individual manager portfolio allocations

Performance
- Trailing periods
- Rolling Periods
- Periodic (monthly, quarterly, annual periods)
- Time-weighted and dollar-weighted (where applicable)
- Graphical and table representation of all observations

Risk
- Volatility
- Downside statistics
- Benchmark Sensitivity

Attribution Analysis
- Total Fund
- Investment Manager Portfolios

Additional Statistics (including, but not limited to)
- Capture Ratios
- Alpha
- Beta
- R-squared
- Information Ratio
- Sharpe Ratio

**34. Please discuss the use of performance based fees, asset based fees, flat fees and any other fee structures you may recommend for use with external managers.**

Typically, with traditional investment managers, an asset based fee structure is utilized. In the alternative investment space, it is typical to enter into an asset-based plus performance based fee structure.

**35. Describe your firm's criteria for recommending a manager be placed on probation, removed from probation, or replaced.**

Investment managers researched by Consulting Group Investment Advisor Research (CG IAR) may be placed on a Watch List when certain events occur.

In the event that the information obtained during an evaluation leads the research department to believe that a "meaningful" change is occurring in the status of an asset manager, a Watch will be issued. Though it is difficult to quantify the threshold of "meaningful," it is the intention of CG IAR to issue a Watch early enough in the evaluation process to give advanced warning of possible downgrades. Except in extraordinary circumstances, all downgrades will be preceded by the issuance of a Watch. However, not all Watch scenarios will result in a change of recommended status.

Examples of events that may be followed by the issuance of a Watch include, but are not limited to:

- Announcement of departure of key investment or business professionals. Concern may not be limited only to the most senior professionals.
- Discovery of a material change in investment or decision-making process that may be detrimental to value added, may result in style reclassification or otherwise may not be in the best interests of clients, in our view.
- Evidence of activity seemingly in violation of the manager's investment process or otherwise a concern to implementation of process.
- Occurrence of unusually high dispersion of investment performance among accounts with similar investment objectives. Please note that high dispersion is often a symptom of a problem relating to the firm's investment or decision-making process.

Though possible, the mere announcement of a change in ownership will not likely result in the issuance of a Watch. The negative effects of such change, if any, are not usually immediately evident, but may surface later as a problem consistent with the examples noted above.

The typical duration of a Watch status will vary from situation to situation, but will generally be somewhere between two weeks and three months. The duration of a Watch, however, is not a function of the passage of a set amount of time, but rather the time necessary to complete an evaluation of the issues that led to the Watch in the first place.

Implications of a Watch:
The issuance of a Watch is an indication that Investment Advisor Research believes that one or more developments at a firm could lead to a downgrade of a respective product and removal from the Approved or Focus List. Both the Graystone Consultant and the client ultimately decide which action should result following the issuance of a Watch.

When a Watch is Lifted:
CG IAR will announce that a Watch has been lifted when it believes there is no longer a meaningful chance that a "Not Approved" change in status will result from the evaluation. In many cases, a Watch will be lifted upon the completion of an evaluation and approval of a manager research report. Investors should note that not all subsequent manager research reports will result in a change of status.

Qualifying a Watch Status:
When CG IAR issues a Watch, it will do so in association with one or more of the four main evaluation categories:

- Organization
- Personnel
- Investment Process
- Composite

This association will help demonstrate the area(s) of potential concern and will communicate some of the essential facts and/or concerns that have led to the issuance of a Watch. A "Watch Issuance Date" will be available for each Watch issued.

**36. Describe your firm's experience and capability for implementing a manager transition plan. What factors are considered in developing a transition plan?**

We are continually assisting our clients with various portfolio transitioning plans. When developing a transition plan, it is important to evaluate the total cost of the transition (turnover, trading expense, liquidity) and also the timing of the transition. We will evaluate a potential transition and assist in determining the most cost effective and timely methods of transition. In highly complex and illiquid (high spread) markets such as international and emerging ordinary markets, we may recommend a transition specialist to assist with the transaction.

37. **What do you consider is the most significant recommendations your firm has made to a large sophisticated benefit fund? Specifically, what value was added and how does this recommendation demonstrate a "unique" insight or value that your firm would bring to the Board's relationship, such as in the area of valuing hard-to-value assets.**

Unlike many of our competitors, we have been utilizing alternative investments in our client portfolios for over 20 years. Our early analysis and adoption of strategies that showed highly beneficial correlation attributes to traditional portfolios has significantly improved the risk and return experience of our clients. In fact, in several of our client portfolios, the alternative investments are the best performing asset class in the portfolio since inception, outpacing equities, fixed income and real estate. This has increased portfolio values which results in better funding ratios and increased benefits for members.

Often, in investment consulting, it is not the "unique" or highly progressive recommendations that have the most significant impact on our client's portfolios. It is the times where we have shown great conviction and commitment to an investment strategy or asset class during periods of challenging performance, high emotion, and tumultuous markets. For instance, in the late 1990's in the lead up to the technology bubble of 2000, it was fashionable for institutional investors to buy into the soaring returns and the bright future promised by growth stocks and the investment managers who invested in them. In 1999, we recommended and were successful in convincing our trustees to dramatically reduce their commitment to a small cap growth manager who had provided a return of 75% in the quarter. Value managers were out of favor and the outlook was bleak. We viewed this as an opportunity in that space and increased our allocation with the assets gained from the small cap manager. By demonstrating unwavering conviction in the asset allocation and manager structure during this period of great dislocation and mispricing, our clients subsequently enjoyed significant relative outperformance throughout the ensuing market cycle.

Unfortunately, investors were only able to enjoy a few years of relatively quiet markets before the credit crisis unfolded in 2007 and 2008 during which the S&P 500 dropped by 49%, shattering any pension fund's ability to meet their actuarial assumption. This period confirmed for our clients that the greatest value our firm brings to a relationship is preparing portfolios for major market events prior to the crisis since it is often too late to reposition a portfolio once the markets have begun to react. During this period, trustees found that many "alternatives" that they believed would protect them during difficult markets were in fact highly correlated to the markets. Our portfolios included truly non-correlated investments that enjoyed positive returns from 2007 to 2009 which greatly improved total portfolio performance. We cannot predict when the next crisis will happen, but we can prepare portfolios for them.

One of the benefits that we believe adds value in helping manager our client portfolios is having a global company. Morgan Stanley maintains personnel at many capacities in every important investment sector of the world. We pull from each global investment sector specific people to form our Global Investment Committee. Having local resources in all areas of the world and having them meet and synthesize their opinion about where excessive risk lies and opportunity is untapped is extremely helpful. Utilizing this opinion adds value with Graystone's ability to access that brain trust on a continuum to monitor portfolio exposures to maximize performance and reduce risk. This GIC (Global Investment Committee) gives us access to the timeliest global opportunities where this would not normally be possible.

38. **Please identify the most challenging or difficult problem that your firm has encountered regarding a jointly-trusteed benefit fund issue and explain how the firm's recommendations were either successful in resolving the problem or not. Do you believe that the recommendations demonstrated the firm's ability to succeed where others may not have been as successful? If so, why?**

In our opinion, the most challenging problem that we have encountered with our jointly-trusteed benefit fund clients is the current low yield interest rate environment. Investors of all types have enjoyed a declining interest rate environment for over 20 years. Jointly-trusteed funds have enjoyed total returns on their bond portfolios that approach their actuarial assumptions. With the 10-year U.S. Treasury Bond yield currently at 1.7%, we are greatly concerned about our clients' ability to achieve their actuarial assumptions over the intermediate term. For instance, in a traditional 60/40 portfolio mix of stocks and bonds, if bonds are to offer only a 2% annual total return going forward, equities would have to return in excess of 12% annually to meet an 8.0% actuarial assumption. In order to address this concern, we have conducted extensive research into the global fixed income markets and have made adjustments to our portfolios that we expect will increase the rate of return and also be positioned to take advantage of a rising interest rate environment. Although the "final" result of this solution is still unfolding, we have already begun to see a positive impact of these changes on performance.

39. **Please describe your firm's experience and capability in providing education and training to benefit fund trustees.**

Graystone Consulting is equipped to offer our clients a high degree of educational information to assist with the day to day fiduciary responsibilities our clients face with respect to the oversight of their portfolios. Ranging from the extensive library of white papers, online reports, brochures and publications, to the monthly commentary and bulletins from the Global Investment Committee, to the research reports written by our analysts on investment products, our commitment is to provide fiduciaries with as much pertinent information as possible to assist with the decisions that they need to make for their portfolios.

In addition to these educational materials, we may be able to provide you with customized reports regarding the performance and asset allocation of your specific portfolio. This information, combined with the available research on specific investment managers, will combine to provide you with an excellent opportunity to make the important and appropriate investment decisions you face as a fiduciary.

Graystone Consulting stands committed to continuing to provide you with this type of information on an on-going basis. We feel that our dedication to trying to be on the forefront of the industry is working, and is demonstrated in annual market surveys, such as that of Cerulli Associates.

The team responsible for servicing the relationship will work proactively in order to educate board members in topics which may include the development and/or review of an investment policy statement, strategic and active asset allocation advice, risk analysis, asset/liability management, performance and attribution results, and peer group comparisons. We believe ongoing education is essential to providing the tools necessary in order to enable those responsible for the continued good stewardship of the funds they are entrusted with to make informed decisions. We are willing to commit to hosting an agreeable number of education workshops per year covering such varied topics as alternative investments, evaluating risk, performance measurement analysis, asset allocation, and understanding investment styles. We welcome the opportunity to design a custom education and training program for the board that specifically addresses the topics you judge to be the most important and applicable.

40. **Please include an example of a special project you performed in the past for a jointly-trusteed benefit fund client, for example, in the area of evaluating alternative investments.**

We are constantly engaged in special projects for our clients of various levels of complexity. One of the most common special projects we are asked to undertake involves evaluating investment managers (including alternatives) that are of interest to our clients but not formally covered by our research staff. In addition, and more specifically, our research department recently concluded two special projects in which we conducted a full study of the active vs. passive debate and also a study of the rise in availability and popularity of alternative mutual funds. Both of these special projects resulted in the publication of white papers.

## D. Legal Issues and Potential Conflicts

**41. Is the firm, and/or its parent or affiliate, a registered investment advisor with the SEC under the Investment Advisors Act of 1940? If not, what are its fiduciary classifications? Please state whether the firm is or is not a fiduciary or QPAM (as those terms are defined by the Employee Retirement Income Security Act of 1974 (ERISA).**

Yes. Graystone Consulting, a business unit of Morgan Stanley, provides non-discretionary investment advisory and consulting services under its Institutional Services Agreement as a fiduciary within the meaning of Section 3(21) of ERISA and the regulations thereunder, as well a fiduciary as a registered investment advisor under the Investment Advisers Act of 1940. Where Graystone provides discretionary investment advisory and consulting services pursuant to its Institutional Services Agreement, Graystone will acknowledge that it is a fiduciary pursuant to Section 3(38) of ERISA, as well a fiduciary as a registered investment advisor under the Investment Advisers Act of 1940.

**42. Please provide a copy of the firm's most recently filed Form ADV, Parts I and II with all schedules.**

Form ADV is attached.

**43. Has the firm, the primary or secondary consultants, or another officer or principal been involved in any litigation, arbitration, mediation, or other legal proceedings, or government investigation, or regulatory proceedings, involving allegations of fraud, negligence, criminal activity or breach of fiduciary duty relating to benefit consulting activities? If so, identify and provide an explanation for each and indicate the current status.**

None of the primary or secondary consultants have been involved in any allegations, litigation arbitration or other legal proceeds relating to benefit consulting activities.

Morgan Stanley LLC along with its Financial Advisors are named from time to time as defendants in various matters incidental to, and typical of, the businesses in which we engage. These include civil actions and arbitration proceedings in which Morgan Stanley LLC or its Financial Advisors have been named, arising in the normal course of business activities as a broker and dealer in securities, as an underwriter, as an investment banker or otherwise. Morgan Stanley also maintains regular and ongoing contact with the Securities and Exchange Commission, various state regulators, administrative agencies and self-regulatory organizations such as the National Association of Securities Dealers, Inc. (the "NASD") and the New York Stock Exchange ("NYSE"), and is often asked to provide information, documents or testimony in connection with investigations or proceedings conducted by those bodies.

Information disclosing certain legal and regulatory matters are made publicly available through the NASD website at www.nasd.com. Information can also be found in Part I of Morgan Stanley's Form ADV that may be found on the SEC website at www.sec.gov.

**44. Please describe the levels of coverage for errors and omissions insurance and any other fiduciary or professional liability insurance your firm carries, including a list of insurance carriers supplying the coverage.**

Morgan Stanley and all its subsidiaries maintain a Financial Institutions Bond, which insures Morgan Stanley and all its Subsidiaries for loss due to dishonest or fraudulent acts by employees; loss caused by forgery or alteration of securities electronic and computer crime and voice-initiated money transfers. Details are given below:

| | |
|---|---|
| Name of Insurer: | ACE UK |
| Rating: | A+ |
| Policy Number: | FC1280789 |
| Extent of Cover: | USD 200 Million |
| Deductible: | USD 20 Million |
| Expiry Date: | 1 October 2013 |

Professional Indemnity Errors and Omissions Policy:

Morgan Stanley maintains an Advisers Errors and Omissions Policy, which insures Morgan Stanley and all its subsidiaries for claims by clients regarding actual or alleged breach of duty, negligence and errors and omissions while in the business as an investment adviser. Details are given below.

| | |
|---|---|
| Name of Insurer: | Travelers Casualty & Surety Co. of America |
| Policy Number: | 105218422 |
| Extent of Cover: | USD 15 Million |
| Deductible: | USD 100,000 |
| Expiry Date: | 31 January 2014 |

**45. Explain in detail any potential for conflict of interest that would be created by your firm's consultancy for the Board.**

Graystone Consulting places paramount importance on the delivery of objective, unbiased investment advice to our clients. This commitment is reinforced in all our business practices, and our culture and values demand unabashed client advocacy. Each consultant has the flexibility to design and deliver investment strategies tailored to the unique needs of each client.

To serve the interests of its clients, we adhere to established guidelines:

- We are committed to maintaining one of the most robust teams of manager research analysts in the financial services industry. Currently, our Investment Advisor Research teams are comprised of nearly 60 experienced research analysts dedicated to the evaluation of approximately 1,300 investment products every quarter.
- Our research team follows a disciplined evaluation process that is consistently applied to every firm we review and approve for our clients. We do not charge investment firms a fee for our evaluation services and we do not permit them to compensate our analysts in any way.
- Investment management research is generated solely for the use of our clients and to support our advisory programs; it is never sold or released to outside organizations.
- We look beyond historic short-term performance, which we believe is rarely a gauge of future success, address instead a series of qualitative and quantitative criteria that we believe are more reliable indicators of a manager's long-term quality.
- Our database of investment analytics is robust and maintained by an independent provider. This database currently includes information on over 6,500 investment products. Investment firms are not charged a fee 1) to be included in the database or 2) for providing information to our firm.
- Our research analysts are compensated by means of salary and incentive compensation, which is subjectively determined based on each analyst's performance and contributions. Our manager research analyst compensation is not directly linked to asset gathering, securities trading, investment banking revenues or any measure of business condition related to investment managers.
- While it is inevitable that conflicts may exist within a firm of our size and breadth, we have policies and procedures in place to protect against the eventuality that such conflicts will impact the independence of our research function. We also fully disclose all material conflicts of interest on Form ADV. Please contact us if you would like as copy of the relevant portions of Form ADV.
- We focus on evaluating investment firms unaffiliated with our firm. In fact, we believe that this focus helps us maintain objectivity and purity in our investment recommendations.

We regularly publish our research reports on recommended investment products, thereby enabling each client to remain completely informed and to document their fiduciary decisions. We are committed to delivering pure, objective investment advice customized to your unique financial goals. Objective analysis of investment managers has been the core of this process at our firm for more than three decades.

**46. Describe any relationship the firm or an affiliate of the firm enjoys with the Fund and/or any employee organization that represents the Fund or its employees and/or any employer that contributes to the Fund on behalf of its employees.**

We are not aware of any existing relationships between our firm and the Fund, its representatives, or contributing employers.

**47. Does your firm or its parent or affiliate, manage money for clients or manage a fund-of-fund for clients? How does your firm prevent conflicts of interest or appearance of conflicts?**

Yes. Under our institutional consulting contract, we do not recommend proprietary investments. Should a consulting client desire to participate in an offering by our firm or an affiliate, full disclosure is made of existing and potential conflicts of interest.

**48. Is your firm, or its parent or affiliate, a broker/dealer? If so, does your firm trade for client accounts through this broker/dealer? How does your firm prevent conflicts of interests or the appearance of conflicts?**

Morgan Stanley LLC ("MS") is a registered broker-dealer and may accept trades for money managers in connection with its advisory programs, though money managers have the option of choosing whether or not to use MS for its trading services.

Additionally, the selection of CGM for trade execution services is subject to CGM's ability to achieve best execution for the trade; in the event that CGM is not able to provide best execution, there are no prohibitions against a money manager trading with another firm.

**49. Does your firm charge direct or indirect fees for investment managers to be included in your firm's database or in any manager searches that you conduct on behalf of your clients or for attendance or participation in any conferences that your firm may conduct? If so, what are the fees? How does your firm prevent conflicts of interests or the appearance of conflict?**

Investment managers are not charged for inclusion in any of our platforms.

As a business of a joint venture that is owned by two of the world's largest financial services companies, it is possible that one of our affiliates or businesses have a business relationship with a money manager that is unaffiliated with MS and recommended to clients. Certain mutual funds may offer additional compensation to the firm in the form of 12b-1 fees, management and administrative fees, transfer agency fees, revenue sharing compensation record keeping fees, shareholder serving fees or any other Fund related services fees. In addition, we may receive payments from various vendors (including money managers) in connection with MS-sponsored internal training and education conferences and meetings that our Financial Advisors attend. Such vendors may make payments to, or for the benefit of, MS or its Financial Advisors to reimburse them for the expenses incurred for these events. MS provides sponsorship opportunities and access to our branch offices and Financial Advisors so such third party service providers for educational, marketing and other promotional efforts. Other service providers may also, from time to time, provide non-monetary compensation to MS employees by paying or reimbursing for the cost of items such as meals, travel, lodging, registration fees and entertainment, in connection with training events or conferences and otherwise. Vendors participating in programs described in this document are not required to make any of these types of payments. These payments described in this section comply with Financial Industry Regulatory Authority (FINRA) rules relating to such educational activities.

For additional information and any compensation received from money managers please refer to the Brochure applicable to your advisory program and attached form disclosure document prepared for ERISA-covered consulting clients in connection with ERISA section 408(b)(2) requirements.

MS does not consider the existence or extent of any such relationships or payments as a factor in making its recommendations.

**50. Does your firm sell database information and/or performance analytics to investment managers? Does your firm receive compensation directly or indirectly for such information? How does your firm prevent conflicts of interest or the appearance of conflict with the current investment managers of your clients?**

Research evaluating an investment manager is prepared solely for clients of the Graystone Consulting, and its investment programs. This research is never sold to outside organizations such as investment managers.

**51. In addition to the above, please describe any other circumstances under which the firm receives fees or other compensation from investment managers.**

We are not aware of any other circumstances, in addition to our responses above, under which our firm would receive fees or other compensation from investment managers. Form ADV is attached which provides additional information on conflicts of interest.

**52. Please attach your firm's written policies and procedures related to conflicts of interest, if any.**

Our firm's written policies are attached.

## E. Fees

**53. Please indicate your fee schedule.**

.05% (5 basis points) annually, billed quarterly.

This fee includes optional custody and covers *all* services provided. In addition, the asset-based fee option allows the Fund's managers to utilize our trading facility at zero commission on a best execution basis. During times of high portfolio turnover and investment manager changes, the asset-based fee option can offer significant savings in transaction expenses. In our experience, trading expenses range up to 12 basis points annually on equity allocations during periods of normal turnover.

Hard-dollar and discretionary fee options are available upon request.

**54. Would you charge separately for travel expenses? If so, explain in detail your policy.**

No.

**55. What other costs or expenses might we incur with your firm?**

The fee quoted above is all inclusive. Unless the Trustees request our firm to provide a service other that what is outlined in our consulting agreement, there are no other expenses you might incur with our firm.

**Disclaimer Statements**

To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets. International investing may not be for everyone. Small capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

As further described in the offering documents, an investment in alternative investments can be highly illiquid, are speculative and not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include:

- loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;
- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Actual results may vary and past performance is no guarantee of future results.

Diversification does not ensure against loss.

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