

**REQUEST FOR PROPOSALS FOR**

**Investment Consultant Services**

**ISSUING OFFICE**

**Pennsylvania Turnpike Commission**

**Finance/Administration Department**

**(On behalf of the Pennsylvania Turnpike Commission Retiree Medical Trust)**

**RFP NUMBER**

**RFP 14-10320-4964**

**DATE OF ISSUANCE**

**September 26, 2014**

# REQUEST FOR PROPOSALS FOR

RFP 14-10320-4964

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## PART I

### GENERAL INFORMATION FOR PROPOSERS

**I-1. Purpose.** This request for proposals (RFP) provides interested Proposers with sufficient information to enable them to prepare and submit proposals for consideration by the Pennsylvania Turnpike Commission Retiree Medical Trust (Trust) to satisfy a need for Investment Consultant Services. The Trust intends to select a firm to assist the Trustees with the investment management of Trust assets.

**I-2. Issuing Office.** This RFP is issued on behalf of the Trust by the **Office of the Chief Financial Officer**. All questions regarding this RFP must be directed to the Trust pursuant to the process identified in Section I-9 below. No questions will be addressed except through such process.

**I-3. Scope.** This RFP contains instructions governing the proposals to be submitted and the material to be included therein; a description of the service to be provided; requirements which must be met to be eligible for consideration; general evaluation criteria; and other requirements to be met by each proposal.

#### **I-4. Problem Statement.**

##### **A. General Description**

The Trust is soliciting proposals for the purpose of retaining an investment consultant to assist the Trustees with the investment management of Trust assets, including making appropriate recommendations for any changes to the Trust's investment policy, making recommendations of potential firms to serve as active managers of Trust assets and monitoring the performance of selected managers. The Trust intends to select that firm that best meet the Trust's selection criteria, as identified in Section III-4 of this RFP.

##### **B. Requested Services**

The services requested will include the following:

- Provide oversight of the investment assets of the Trust to ensure compliance with the Trust's Investment Policy Statement and industry best practices.
- Regularly review the asset allocation incorporated into the Investment Policy Statement and make recommendations for any modifications to the existing Investment Policy Statement.
- Assist in the selection of active managers and/or actively managed funds in which the Trust's investment assets shall be invested.
- Monitor key developments (including personnel transitions) at active managers and funds utilized by the Trust and to report on those that may be of relevance to the Trust.
- Assist in the rebalancing of Trust assets among asset classes.

- Provide advice to the Trustees concerning market conditions and security specific issues.
- Provide written quarterly performance reports by the 15<sup>th</sup> working day following the end of each Trust fiscal quarter.
- Attend meetings of the Board of Trustees and of the Pennsylvania Turnpike Commission, as requested.

**I-5. Type of Contract.** The Trust currently intends that a single contract will be awarded for the contemplated services. The Trust may in its sole discretion undertake negotiations with proposers whose proposals as to experience, capabilities, approach and price, among other factors, show them to be qualified, responsible and capable of performing the required work.

**I-6. Rejection of Proposals.** The Commission reserves the right to reject any and all proposals received as a result of this request, or to negotiate separately with competing Proposers.

**I-7. Subcontracting.** Any use of subcontractors by a Proposer must be identified in the proposal. During the contract period use of any subcontractors by the selected Proposer, which were not previously identified in the proposal, must be approved in advance in writing by the Trust.

**I-8. Incurring Costs.** The Commission is not liable for any costs the Proposer incurs in preparation and submission of its proposal, in participating in the RFP process or in anticipation of award of contract.

**I-9. Questions and Answers.** Written questions may be submitted to clarify any points in the RFP which may not have been clearly understood. Written questions should be submitted by email to [RFP-Q@paturndpike.com](mailto:RFP-Q@paturndpike.com) with RFP 14-10320-4964 in the Subject Line to be received no later than 2:00 PM local time on **Wednesday, October 15, 2014**. All questions and written answers will be posted to the website as an addendum to and become part of this RFP.

**I-10. Addenda to the RFP.** If it becomes necessary to revise any part of this RFP before the proposal response date, addenda will be posted to the Commission's website under the original RFP document. It is the responsibility of the Proposer to periodically check the website for any new information or addenda to the RFP.

The Commission may revise a published advertisement. If the Commission revises a published advertisement less than ten days before the RFP due date, the due date will be extended to maintain the minimum ten-day advertisement duration if the revision alters the project scope or selection criteria. Firms are responsible to monitor advertisements/addenda to ensure the submitted proposal complies with any changes in the published advertisement.

**I-11. Response.** To be considered, Proposals must be delivered to the Pennsylvania Turnpike Commission's Contracts Administration Department, Attention: Wanda Metzger, Contracts Supervisor, on or before 2:00 PM local time on **Friday, October 31, 2014**. The Pennsylvania Turnpike Commission is located at 700 South Eisenhower Boulevard, Middletown, PA 17057 (Street address). Our mailing Address is P. O. Box 67676, Harrisburg, PA 17106.

**Please note that use of U.S. Mail, FedEx, UPS, or other delivery method, does not guarantee delivery to the Contracts Administration Department by the above listed time for submission.** Proposers mailing proposals should allow sufficient delivery time to ensure timely receipt of their proposals. If the Commission office location to which proposals are to be delivered is closed on the proposal response date, due to inclement weather, natural disaster, or any other cause, the deadline for submission shall be automatically extended until the next Commission business day on which the office is open. Unless the Proposers are otherwise notified by the Commission, the time for submission of proposals shall remain the same.

**I-12. Proposals.** To be considered, Proposers should submit a complete response to this RFP, using the format provided in PART II. Each proposal should be submitted in five (5) hard copies of the Technical Submittal and five (5) hard copies of the Cost Submittal. In addition to the hard copies of the proposal, **one complete and exact copy of the entire proposal (Technical and Cost, along with all requested documents) on CD-ROM or Flash Drive in Microsoft Office or Microsoft Office-compatible format.** The electronic copy must be a mirror image of the hard copy. Proposer should ensure that there is no costing information in the technical submittal. The CD or Flash drive should clearly identify the Proposer and include the name and version number of the virus scanning software that was used to scan the CD or Flash drive before it was submitted. The Proposer shall present the proposal to the Contracts Administration Department only. No other distribution of proposals will be made by the Proposer. Each proposal page should be numbered for ease of reference.

An official authorized to bind the Proposer to its provisions must sign the proposal. If the official signs the Proposal Cover Sheet (Appendix A to this RFP) and the Proposal Cover Sheet is attached to the proposal, the requirement will be met. For this RFP, the proposal must remain valid for at least **180** days. Moreover, the contents of the proposal of the selected Proposer will become contractual obligations if a contract is entered into.

Each and every Proposer submitting a proposal specifically waives any right to withdraw or modify it, except as hereinafter provided. Proposals may be withdrawn by written or fax notice (fax number (717) 986-8714) received at the Commission's address for proposal delivery prior to the exact hour and date specified for proposal receipt.

Overnight Delivery Address:  
Contracts Administration Department  
Attn: Wanda Metzger  
PA Turnpike Commission  
700 South Eisenhower Blvd.  
Middletown, PA 17057

US Mail Delivery Address:  
Contracts Administration Department  
Attn: Wanda Metzger  
PA Turnpike Commission  
P.O. Box 67676  
Harrisburg, PA 17106

However, if the Proposer chooses to attempt to provide such written notice by fax transmission, the Commission shall not be responsible or liable for errors in fax transmission. A proposal may also be withdrawn in person by a Proposer or its authorized representative, provided his/her identity is made known and he/she signs a receipt for the proposal, but only if the withdrawal is made prior to the exact hour and date set for proposal receipt. A proposal may only be modified by the submission of a new sealed proposal or submission of a sealed modification which complies with the requirements of this solicitation.

**I-13. Economy of Preparation.** Proposals should be prepared simply and economically, providing a straightforward, concise description of the Proposer's ability to meet the requirements of the RFP.

**I-14. Discussions for Clarification.** Proposers who submit proposals may be required to make an oral or written clarification of their proposals to the Issuing Office through the Contract Administration Department to ensure thorough mutual understanding and Proposer responsiveness to the solicitation requirements. The Issuing Office through the Contract Administration Department will initiate requests for clarification.

**I-15. Best and Final Offers.** The Trust reserves the right to conduct discussions with Proposers for the purpose of obtaining “best and final offers.” To obtain best and final offers from Proposers, the Issuing Office may do one or more of the following: a) enter into pre-selection negotiations; b) schedule oral presentations; and c) request revised proposals. The Issuing Office will limit any discussions to responsible Proposers whose proposals the Issuing Office has determined to be reasonably susceptible of being selected for award.

**I-16. Prime Proposer Responsibilities.** The selected Proposer will be required to assume responsibility for all services offered in its proposal whether or not it produces them. Further, the Commission will consider the selected Proposer to be the sole point of contact with regard to contractual matters.

**I-17. Proposal Contents.** Proposals will be held in confidence and will not be revealed or discussed with competitors, unless disclosure is required to be made (i) under the provisions of any Commonwealth or United States statute or regulation; or (ii) by rule or order of any court of competent jurisdiction. All material submitted with the proposal becomes the property of the Pennsylvania Turnpike Commission and may be returned only at the Commission’s option. Proposals submitted to the Commission may be reviewed and evaluated by any person other than competing Proposers at the discretion of the Commission. The Commission has the right to use any or all ideas presented in any proposal. Selection or rejection of the proposal does not affect this right.

In accordance with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. § 67.707 (Production of Certain Records), Proposers shall identify any and all portions of their Proposal that contains confidential proprietary information or is protected by a trade secret. Proposals shall include a written statement signed by a representative of the company/firm identifying the specific portion(s) of the Proposal that contains the trade secret or confidential proprietary information.

Proposers should note that “trade secrets” and “confidential proprietary information” are exempt from access under Section 708(b)(11) of the RTKL. Section 102 defines both “trade secrets” and “confidential proprietary information” as follows:

Confidential proprietary information: Commercial or financial information received by an agency: (1) which is privileged or confidential; **and** (2) the disclosure of which would cause substantial harm to the competitive position of the person that submitted the information.

Trade secret: Information, including a formula, drawing, pattern, compilation, including a customer list, program, device, method, technique or process that: (1) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; **and** (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The term includes data processing software by an agency under a licensing agreement prohibiting disclosure.

65 P.S. §67.102 (emphasis added).

The Office of Open Records has determined that a third party must establish a trade secret based upon factors established by the appellate courts, which include the following:

- the extent to which the information is known outside of his business;
- the extent to which the information is known by employees and others in the business;
- the extent of measures taken to guard the secrecy of the information;
- the value of the information to his business and to competitors;
- the amount of effort or money expended in developing the information; and
- the ease of difficulty with which the information could be properly acquired or duplicated by others.

*See Crum v. Bridgestone/Firestone North Amer. Tire.*, 907 A.2d 578, 585 (Pa. Super. 2006).

The Office of Open Records also notes that with regard to “confidential proprietary information the standard is equally high and may only be established when the party asserting protection shows that the information at issue is either ‘commercial’ or ‘financial’ and is privileged or confidential, and the disclosure *would* cause substantial competitive harm.” (emphasis in original).

For more information regarding the RTKL, visit the Office of Open Records’ website at [www.openrecords.state.pa.us](http://www.openrecords.state.pa.us).

**I-18. Debriefing Conferences.** Proposers whose proposals are not selected will be notified of the name of the selected Proposer and given the opportunity to be debriefed, at the Proposer’s request. The Issuing Office will schedule the time and location of the debriefing. The Proposer will not be compared with other Proposers.

**I-19. News Releases.** News releases pertaining to this project will not be made without prior Trust approval, and then only in coordination with the Issuing Office.

**I-20. Commission Participation.** Unless specifically noted in this section, Proposers must provide all services to complete the identified work.

**I-21. Cost Submittal.** The cost submittal shall be placed in a separately sealed envelope within the sealed proposal and kept separate from the technical submittal.

**I-22. Term of Contract.** The term of the contract will commence on the Effective Date (as defined below) and will be for three (3) years from that date with options of up to two (2) one-year contract extensions. The Commission shall fix the Effective Date after the contract has been fully executed by the Contractor and by the Commission and all approvals required by Commission contracting procedures have been obtained.

**I-23. Proposer’s Representations and Authorizations.** Each Proposer by submitting its proposal understands, represents, and acknowledges that:

- a. All information provided by, and representations made by, the Proposer in the proposal are material and important and will be relied upon by the Issuing Office in awarding the contract(s). Any misstatement, omission or misrepresentation shall be treated as fraudulent concealment from the Issuing Office of the true facts relating to the

submission of this proposal. A misrepresentation shall be punishable under 18 Pa. C.S. 4904.

- b. The price(s) and amount of this proposal have been arrived at independently and without consultation, communication or agreement with any other Proposer or potential Proposer.
- c. Neither the price(s) nor the amount of the proposal, and neither the approximate price(s) nor the approximate amount of this proposal, have been disclosed to any other firm or person who is a Proposer or potential Proposer, and they will not be disclosed on or before the proposal submission deadline specified in the response section of this RFP.
- d. No attempt has been made or will be made to induce any firm or person to refrain from submitting a proposal on this contract, or to submit a proposal higher than this proposal, or to submit any intentionally high or noncompetitive proposal or other form of complementary proposal.
- e. The proposal is made in good faith and not pursuant to any agreement or discussion with, or inducement from, any firm or person to submit a complementary or other noncompetitive proposal.
- f. To the best knowledge of the person signing the proposal for the Proposer, the Proposer, its affiliates, subsidiaries, officers, directors, and employees are not currently under investigation by any governmental agency and have not in the last four (4) years been convicted or found liable for any act prohibited by State or Federal law in any jurisdiction, involving conspiracy or collusion with respect to bidding or proposing on any public contract, except as disclosed by the Proposer in its proposal.
- g. To the best of the knowledge of the person signing the proposal for the Proposer and except as otherwise disclosed by the Proposer in its proposal, the Proposer has no outstanding, delinquent obligations to the Commonwealth including, but not limited to, any state tax liability not being contested on appeal or other obligation of the Proposer that is owed to the Commonwealth.
- h. The Proposer is not currently under suspension or debarment by the Commonwealth, or any other state, or the federal government, and if the Proposer cannot certify, then it shall submit along with the proposal a written explanation of why such certification cannot be made.
- i. The Proposer has not, under separate contract with the Issuing Office, made any recommendations to the Issuing Office concerning the need for the services described in the proposal or the specifications for the services described in the proposal.
- j. Each Proposer, by submitting its proposal, authorizes all Commonwealth agencies to release to the Commission information related to liabilities to the Commonwealth including, but not limited to, taxes, unemployment compensation, and workers' compensation liabilities.



**I-24. Indemnification.** The Proposer shall be responsible for, and shall indemnify, defend, and hold harmless the Commission and its Commissioners, officers, employees, and agents from any claim, liability, damages, losses, causes of action, and expenses, including reasonable attorneys' fees, arising from damage to life or bodily injury or real or tangible personal property caused by the negligence or other tortious acts, errors, and omissions of Proposer, its employees, or its subcontractors while engaged in performing the work of this Agreement or while present on the Commission's premises, and for breach of this Agreement regarding the use or nondisclosure of proprietary and confidential information where it is determined that Proposer is responsible for any use of such information not permitted by this Agreement. The indemnification obligation shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for Contractor or its subcontractors under Workmen's Compensation Acts, Disability Benefits Acts, or other Employee Benefit Act.

**I-25. Insurance.** Proposer will comply with the Insurance requirements as described in Appendix B - Insurance Specification.

## PART II

### INFORMATION REQUIRED FROM PROPOSERS

Proposals must be submitted in the format, including heading descriptions, outlined below. To be considered, the proposal must respond to all requirements in this part of the RFP. Any other information thought to be relevant, but not applicable to the enumerated categories, should be provided as an appendix to the proposal. All cost data relating to this proposal should be kept separate from and not included in the Technical Submittal. Each proposal shall consist of the completed proposal cover sheet (use Appendix A) and two (2) separately sealed submittals. The submittals are as follows: (i) Technical Submittal, in response to Part II-1; (ii) Cost Submittal, in response to Part II-2 hereof.

The Commission reserves the right to request additional information which, in the Commission's opinion, is necessary to assure that the Proposer's competence, number of qualified employees, business organization, and financial resources are adequate to perform according to the RFP.

The Commission may make such investigations as deemed necessary to determine the ability of the Proposer to perform the work, and the Proposer shall furnish to the Issuing Office all such information and data for this purpose as requested by the Commission. The Commission reserves the right to reject any proposal if the evidence submitted by, or investigation of, such Proposer fails to satisfy the Commission that such Proposer is properly qualified to carry out the obligations of the agreement and to complete the work specified.

#### II-1 Technical Submittal.

##### A. Proposal Cover Sheet (**Appendix A**)

Show the name of your firm, Federal I.D. number, address, name of contact person, contact person's email and telephone number date and the subject: **Investment Consultant Services**, RFP 14-10320-4964. In addition it is required that all information requested in Appendix A be provided including information pertaining to location of office performing the work, contact information, listing of all Pennsylvania offices and total number of Pennsylvania employees, and location of company headquarters.

##### B. Cover Letter and Executive Summary

This letter must be signed by an individual who is authorized to negotiate terms, render binding decisions and commit your firm's resources.

Summarize your understanding of our organization, your understanding of the work to be done and make a positive commitment to perform the work necessary. This section should summarize the key points of your submittal. (Limit to two pages.)

##### C. Table of Contents

Include a clear identification of the material by section and by page number.

#### D. Firm Overview

Provide a brief description of how your firm is organized, including the businesses in which it is engaged, the location of offices, the number of investment advisory professionals in each office, and the role of the investment advisory department in your firm. Indicate your firm's commitment to the investment advisory industry and comment on any recent significant changes in your organization. Discuss your firm's presence in and commitment to the Commonwealth of Pennsylvania including offices and employees. Include a discussion of the specific expertise and services that distinguish your firm.

#### E. Personnel and References

Provide the names, proposed roles, background and experience, current professional licenses, office location and availability of the consulting personnel that would work on the Trust's account, and specifically identify the primary person(s) who will be responsible for managing the relationship with the Trust. Proposer must submit a current resume for all proposed staff listing relevant experience and applicable professional affiliations. For the proposed personnel, provide a list of three clients worked with in the last 36 months; a brief description of the services you provided; and the names, titles, addresses and telephone numbers of the contacts primarily responsible for these engagements. You should only list clients which have requirements similar in nature to those of the Trust.

#### F. Approach to Management of Similar Funds (maximum 3 pages)

Discuss your general approach to the management of assets for pension funds, OPEB trusts and similar funds. Discuss your team's approach to asset allocation, recommendation of managers and how you monitor compliance.

**Note:** The Commission is interested in conducting the assessment as expeditiously as possible and would favor an approach that moves aggressively to complete the assessment while still providing a thorough assessment that fully meets all of the requirements of the RFP.

G. Assets Advised Upon

Please complete the following table:

	<u>8/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Total assets				
Total equity assets				
Total fixed income assets				
Total equity assets in pension/OPEB funds				
Total fixed income assets in pension/OPEB funds				
Number of pension/OPEB funds advised				

H. Compliance

Please discuss your firm’s compliance process, including your procedures for ensuring that the specific investment restrictions are complied with.

I. Reporting

Please provide sample reports similar to those that would be provided for the Trust’s accounts.

J. Potential Conflicts of Interest/Fiduciary Responsibilities

- Do you or any related or affiliated companies receive any payments including commissions from managers you recommend, consider for recommendation, or otherwise mention to clients? If so, what is the extent of these payments in relation to your total revenue?
- Describe your policies or procedures to address conflicts of interest, to prevent payments or relationships discussed above from being considered when you provide advice to your clients and to disclose such information to your clients?

- What percentage of your clients utilizes managers, investment funds, brokerage services or other service providers from whom your firm receives fees or commissions?
- Do you have any arrangements with broker-dealers under which you or a related or affiliated company will benefit if managers place trades for their clients with such broker-dealers?

If your firm is retained by the Trust, acknowledge that your firm would have a fiduciary duty to the Commission and Trust in connection with the services to be provided by your firm.

#### K. Commitment to Diversity.

The Turnpike Commission is committed to the inclusion of disadvantaged, minority, and woman firms in contracting opportunities. Responding firms shall clearly identify Diverse Business (DB) firms, expected to participate in the Contract, in their proposal submittal. Proposed DB firms must be certified by a Third-party Certifying Organization that certifies a small business, minority-owned business, women-owned business or veteran-owned small business as a diverse business. This includes: (1) the National Minority Supplier Development Council; (2) the Women’s Business Development Enterprise National Council; (3) the Small Business Administration; (4) The Department of Veteran Affairs; (5) the Pennsylvania Unified Certification Program. The utilization of DB firms is encouraged and will be considered a factor in the evaluation determination.

## II-2 Cost Submittal.

The information requested in this section shall constitute your cost submittal. **THE COST SUBMITTAL SHALL BE PLACED IN A SEPARATE SEALED ENVELOPE WITHIN THE SEALED PROPOSAL AND ON A CD-ROM, SEPARATE FROM THE TECHNICAL SUBMITTAL.**

Proposers should **not** include any assumptions in their cost submittals. If the proposer includes assumptions in its cost submittal, the Issuing Office may reject the proposal. Proposers should direct in writing to the Issuing Office pursuant to Part I-9, Questions and Answers of this RFP any questions about whether a cost or other component is included or applies. All Proposers will then have the benefit of the Issuing Office’s written answer so that all proposals are submitted on the same basis.

#### A. Cost Proposal

Present a concise list of the scope of services and the work products that your firm proposes to provide. Given your proposed scope of services and work products, discuss your proposed fee arrangement *based on each of the following alternatives*:

1. Compensation on a fixed annual cost, payable monthly.
2. Compensation based on the value of the Trust assets.

B. Reimbursement of “Out-of-Pocket” Expenses

The Trust shall reimburse for “Out-of-Pocket” expenses upon proper invoice rendered with appropriate receipts attached. Such expenses include long distance telephone, postage, air express charges, fax, reproduction and related costs necessarily incurred as Investment Consultant. Travel expenses related to performance of the services to the Trust, and approved in advance by the Trust, will be reimbursed in accordance with the Pennsylvania Turnpike Commission’s travel policy.

**Any costs not provided in the cost proposal will be assumed as no charge to the Commission.**

**The selected Proposer shall only perform work on this contract after the Effective Date is affixed and the fully-executed contract sent to the selected Proposer. The Trust shall issue a written Notice to Proceed to the selected Proposer authorizing the work to begin on a date which is on or after the Effective Date. The selected Proposer shall not start the performance of any work prior to the date set forth in the Notice of Proceed and the Trust shall not be liable to pay the selected Proposer for any service or work performed or expenses incurred before the date set forth in the Notice to Proceed. No Commission employee or Trustee has the authority to verbally direct the commencement of any work under this Contract.**

## PART III

### CRITERIA FOR SELECTION

**III-1. Mandatory Responsiveness Requirements.** To be eligible for selection, a proposal shall be (a) timely received from a Proposer; and (b) properly signed by the Proposer.

**III-2. Technical Nonconforming Proposals.** The two (2) Mandatory Responsiveness Requirements set forth in Section III-1 above (a&b) are the only RFP requirements that the Commission will consider to be non-waivable. The Issuing Office reserves the right, in its sole discretion, to (1) waive any other technical or immaterial nonconformities in the proposal, (2) allow the Proposer to cure the nonconformity, or (3) consider the nonconformity in the evaluation of the proposal.

**III-3. Proposal Evaluation.** Proposals will be reviewed and evaluated by a committee of qualified personnel selected by the Trustees. This committee will recommend for award the firm that most closely meets the requirements of the RFP and satisfies the Trust's requirements. Award will only be made to a Proposer determined to be responsive and responsible in accordance with Commonwealth Management Directive 215.9, Contractor Responsibility Program.

**III-4. Evaluation Criteria.** The following criteria will be used, in order of relative importance from the highest to the lowest, in evaluating each proposal:

1. **Overall**
  - a. Responsiveness, organization, and clarity of the Proposal
  - b. Presence in and commitment to the Commonwealth of Pennsylvania
2. **Assigned Personnel**
  - a. Qualifications and experience
  - b. Responses of references
  - c. Location and availability to Commission staff
3. **Firm Experience and Approach to the Engagement**
  - a. Qualifications and experience
  - b. Approach to the engagement (including compliance and reporting)
  - c. Responses of references
4. **Commitment to Diversity and Inclusion.** This refers to the inclusion of DB firms, as described in Part II-1 Item K. Participation may be measured in terms of total dollars committed or percentage of total contract amount to certified DB firms.
5. **Cost**

**APPENDIX A – PROPOSAL COVER SHEET**  
**Pennsylvania Turnpike Commission**  
**Investment Consultant Services**

**RFP# 14-10320-4964**

**Enclosed in two separately sealed submittals is the technical and cost proposal for the Proposer identified below for the above referenced RFP:**

<b>Proposer Information:</b>	
Proposer Name	
Proposer Mailing Address	
Proposer Website	
Proposer Contact Person/Title	
Contact Person's Phone Number	
Contact Person's Fax Number	
Contact Person's Email Address	
Proposer Federal ID Number	
Location of Headquarters	
Location of Office(s) Performing the Work	
Listing of all Pennsylvania Offices and Total Number of Pennsylvania Employees	

**Submittals Enclosed and Separately Sealed:**

<input type="checkbox"/> Technical Submittal	<input type="checkbox"/> Cost Submittal
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**Signature**

Signature of an official authorized to bind the Proposer to the provisions contained in the Proposer's proposal: _____
Print Name
Title

**FAILURE TO COMPLETE, SIGN AND RETURN THIS FORM WITH THE PROPOSAL MAY RESULT IN THE REJECTION OF THE PROPOSAL.**



## APPENDIX B

INSURANCE SPECIFICATION "H"  
MINIMUM INSURANCE REQUIREMENTS

### The Pennsylvania Turnpike Commission

Prior to the commencement of any work and until completion and final payment is made for the work / final acceptance of the work, the Financial Services Firm will provide and maintain the following minimum levels of insurance at Financial Services Firm's own expense. The cost of the required insurance shall be included in the Financial Services Firm's cost proposal and no adjustment shall be made to the contract price on account of such costs. The term Financial Services Firm shall include all Firms, Contractors, Subcontractors and Sub-Subcontractors of every tier utilized by the Financial Services Firm in the performance of this contract. Financial Services Firm shall furnish Certificates of Insurance evidencing and reflecting the effective date of coverage as outlined below. In no event shall Work be performed until the required evidence of Insurance is provided in accordance with the terms of the contract. If found to be non-compliant, the Commission may purchase the required insurance coverage(s) and the cost will be borne by the Financial Services Firm through direct payment/reimbursement to the Commission or the Commission may withhold payment to the Financial Services Firm for amounts owed to them.

- a) All insurance shall be procured from insurers permitted to do business in the State in which the project is taking place and having an A.M. Best Rating of at least "A-, Class VIII".
- b) Financial Services Firm shall not have a Self Insured Retention (SIR) on any policy greater than \$25,000, which is the responsibility of the Financial Services Firm. If Financial Services Firm's policy(ies) has a Self Insured Retention exceeding this amount, approval must be received from the Commission prior to starting work. In the event any policy includes an SIR, the Financial Services Firm is responsible for payment within the SIR of their policy(ies) and the Additional Insured requirements specified herein shall be offered within the SIR amount(s).
- c) All insurance required herein, with the exception of the Professional Liability Insurance, shall be written on an "occurrence" basis. Claims-Made coverage must include:
  - i. The retroactive date must be on or prior to the start of work under this contract; and
  - ii. The Financial Services Firm must purchase "tail coverage/an extended reporting period" or maintain coverage for a period of three years, subsequent to the completion of their work / final payment.
- d) The Financial Services Firm's insurance carrier (s) shall agree to provide at least thirty (30) days prior written notice to the Commission in the event coverage is canceled or non-renewed. In the event of cancellation or non-renewal of coverage(s), it is the Financial Services Firm's responsibility to replace coverage to comply with the Contract requirements so there is no lapse of coverage for any time period.

In the event the insurance carriers will not issue or endorse their policy(s) to comply with the above it is the responsibility of the Financial Services Firm to

**The Pennsylvania Turnpike Commission**

report any notice of cancellation or non-renewal at least thirty (30) days prior to the effective date of this notice.

- e) Financial Services Firm shall provide the Commission with Certificates of Insurance, evidencing the insurance coverages listed below, ten days prior to the start of work of this Project and thereafter upon renewal or replacement of each coverage. The Financial Services Firm shall not begin any work until the Commission has reviewed and approved the Certificate of Insurance. The required insurance shall not contain any exclusions or endorsements, which are not acceptable to the Commission.

Failure of the Commission to demand such certificate or other evidence of full compliance with these insurance requirements or failure of the Commission to identify a deficiency from evidence that is provided shall not be construed as a waiver of Financial Services Firm's obligation to maintain such insurance.

With respect to insurance maintained after final payment in compliance with a requirement below, an additional certificate(s) evidencing such coverage shall be provided to the Commission with final application for payment and thereafter upon renewal or replacement of such insurance until the expiration of the time period for which such insurance must be maintained.

- f) The Commission, (including the Commission's Parent, Subsidiaries, and Affiliates) shall be added as ADDITIONAL INSUREDS on all liability policies (except Workers' Compensation and Professional Liability Policy, where applicable), for ongoing operations and completed operations on a primary noncontributory basis. Coverage to include ongoing and completed operations using ISO Endorsements CG 2010 and CG 2037, or their equivalents. Each of the Additional Insured's respective members, employees, agents and representatives shall also be afforded coverage as an Additional Insured. Coverage should be provided for a period of three years subsequent to the completion of work/final payment.

If you are operating in a state that has implemented the "Anti-Indemnity" Additional Insured Endorsements, you are required to provide the state specific additional insured endorsements for ongoing and completed operations. These states include but are not limited to: Montana, New Mexico, Oregon, Colorado, Kansas, California, Louisiana, and Texas.

The Commission reserves the right to require Financial Services Firm to name other parties as additional insureds as required by the Commission.

There shall be no "Insured versus Insured Exclusion" on any policies; all policies will provide for "cross liability coverage".

- g) Waiver of Rights of Subrogation: Financial Services Firm shall waive all rights of recovery against the Commission and all the additional insureds for loss or

The Pennsylvania Turnpike Commission

damage covered by any of the insurance maintained by the Financial Services Firm.

- h) The amount of insurance provided in the aforementioned insurance coverages, shall not be construed to be a limitation of the liability on the part of the Financial Services Firm.
- i) The carrying of insurance described shall in no way be interpreted as relieving the Financial Services Firm of any responsibility or liability under the contract.
- j) Any type of insurance or any increase in limits of liability not described above which the Financial Services Firm requires for its own protection or on account of statute shall be its own responsibility and at its own expense.
- k) Financial Services Firm shall promptly notify the Commission and the appropriate insurance company(ies) in writing of any accident(s) as well as any claim, suit or process received by the insured Financial Services Firm arising in the course of operations under the contract. The Financial Services Firm shall forward such documents received to his insurance company(ies), as soon as practicable, or as required by its insurance policy(ies).

**REQUIRED COVERAGES - the following may be provided through a combination of primary and excess policies in order to meet the minimum limits set forth below:**

1. **Workers' Compensation and Employer's Liability:**

Provided in the State in which the work is to be performed and elsewhere as may be required and shall include:

- a) Workers' Compensation Coverage: Statutory Requirements
- b) Employers Liability Limits not less than:

Bodily Injury by Accident:	\$500,000 Each Accident
Bodily Injury by Disease:	\$500,000 Each Employee
Bodily Injury by Disease:	\$500,000 Policy Limit
- c) USL&H, and FELA Coverage, if applicable.
- d) Includes sole proprietorships and officers of corporation who will be performing the work.
- e) Where applicable, if the Financial Services Firm is lending or leasing its employees to the Commission for the work under this contract (e.g. crane rental with operator), it is the Financial Services Firm's responsibility to provide the Workers Compensation and Employer's Liability coverage and to have their policy endorsed with the proper Alternate Employer Endorsement.

2. **Commercial General Liability:**

Provided on ISO form CG 00 01 12 07 or an equivalent form including Premises - Operations, Independent Contractors, Products/Completed Operations, Broad Form

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Property Damage, Contractual Liability, and Personal Injury and Advertising Injury.

- a) Occurrence Form with the following limits:
  - (1) General Aggregate: \$2,000,000
  - (2) Products/Completed Operations Aggregate: \$2,000,000
  - (3) Each Occurrence: \$1,000,000
  - (4) Personal and Advertising Injury: \$1,000,000
- b) Products/Completed Operations Coverage must be maintained for a period of at least three (3) years after final payment / completion of work (including coverage for the Additional Insureds as set forth in these Insurance Requirements).
- c) The General Aggregate Limit must apply on a **Per Project basis**.
- d) No sexual abuse or molestation exclusion.
- e) No amendment to the definition of an "Insured Contract".

3. **Automobile Liability:**

- a) Coverage to include All Owned, Hired and Non-Owned Vehicles (or "Any Auto"), if you do not have any Owned Vehicles you are still required to maintain coverage for Hired and Non-Owned Vehicles as either a stand alone policy or endorsed onto the Commercial General Liability policy above
- b) Per Accident Combined Single Limit \$1,000,000
- c) For Financial Services Firm(s) involved in the transportation of hazardous material, include the following endorsements: MCS-90 and ISO-9948.

4. **Commercial Umbrella Liability:**

- a) Policy(ies) to apply on a Following Form Basis of the following:
  - (1) Commercial General Liability,
  - (2) Automobile Liability, and
  - (3) Employers Liability Coverage.
- b) Minimum Limits of Liability
  - Occurrence Limit: \$10,000,000
  - Aggregate Limit (where applicable): \$10,000,000

5. **Professional Liability Insurance:**

- a) Minimum Limits of Liability
  - Per Claim Limit: \$5,000,000
  - Aggregate Limit: \$5,000,000
- b) The Definition of "Covered Services" shall include the services required in the scope of this contract.
- c) Coverage shall be extended to cover "Green Building", if applicable.

**The Pennsylvania Turnpike Commission**

**6. Crime Insurance:**

- a) Include the Employee Theft and Theft, Disappearance and Destruction coverage parts.
- b) The Employee Theft Coverage part shall include the Clients' Property Endorsement (ISO Form CR 04 01, or its equivalent).
- c) Coverage may be provided in the form of a Financial Institution Bond.
- d) Minimum Limits of Liability:  
Per Occurrence: \$1,000,000

**7. Privacy Liability:**

- a) Financial Services Firm shall maintain coverage for third party liability arising out of breach of privacy, inclusive of confidential and proprietary business information, HIPAA violations and other breaches of personally identifiable information and/or protected health information that may arise from their work with this contract.
- b) Minimum Limits of Liability:  
Per Claim: \$1,000,000  
Aggregate: \$1,000,000
- c) Privacy Breach Notification and Credit Monitoring: \$250,000 Per Occurrence

**8. Owned, Leased, Rented or Borrowed Equipment or Property:**

- a) Financial Services Firm shall maintain Property Coverage for their owned, leased, rented or borrowed equipment, tools, trailers, etc. for the full replacement cost of the equipment.
- b) Coverage to be provided on an Agreed Amount Basis with no Coinsurance
- c) Coverage to be provided on an All Risk basis.

FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION

Pennsylvania Turnpike Commission  
Retiree Medical Trust  
Years Ended May 31, 2014 and 2013  
With Report of Independent Auditors

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# **Zelenkofske Axelrod LLC**

## **INDEPENDENT AUDITORS' REPORT**

The Commissioners  
Pennsylvania Turnpike Commission

We have audited the accompanying financial statements of the fiduciary activities of the Pennsylvania Turnpike Commission Retiree Medical Trust ("Trust") as of and for the years ended May 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

<b>Harrisburg</b>	<b>Philadelphia</b>	<b>Pittsburgh</b>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103



# **Zelenkofske Axelrod LLC**

The Commissioners  
Pennsylvania Turnpike Commission

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of the Trust, as of May 31, 2014 and 2013, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 and the supplemental schedules of funding progress and employer contributions on pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
September 26, 2014

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Management's Discussion and Analysis

May 31, 2014

This section of the annual financial report of the Pennsylvania Turnpike Commission Retiree Medical Trust (the "Trust") presents a narrative overview and analysis of the financial performance of the Trust and is meant to be read in conjunction with the basic financial statements, which follow this section. Certain amounts presented in the prior period have been reclassified to conform to the current period financial statement presentation.

#### Overview of the Financial Statements

The Pennsylvania Turnpike Commission (the "Employer") established the Trust, which is intended to provide funding for non-pension postemployment benefits ("OPEB") for employees who meet the age and service requirements outlined in the Employer's plan documents.

The statements of plan net position present information on all of the Trust's assets and deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences being reported as net position. Over time, increases or decreases in plan net position serve as a relative indicator of the change in the financial position of the Trust.

The statements of changes in plan net position show the result of the Trust's total activities during the fiscal years. Changes in plan net position (increases or decreases) reflect the current fiscal period's impact upon the overall financial position of the Trust.

Notes to the basic financial statements contain information and offer explanations to the basic financial statements. The notes are intended to assist the reader in understanding the Trust's basic financial statements.

#### Financial Highlights

The following table summarizes the statements of plan net position as of May 31:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	(In Thousands)		
Total assets	\$ 275,159	\$ 216,970	\$ 143,412
Total liabilities	<b>364</b>	444	167
Net position – restricted for other postemployment benefits	<b>\$ 274,795</b>	\$ 216,526	\$ 143,245

Pennsylvania Turnpike Commission Retiree Medical Trust  
Management's Discussion and Analysis (continued)

**Financial Highlights (continued)**

The following table summarizes the statements of changes in plan net position for the years ended May 31:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In Thousands)		
Additions:			
Contributions:			
Employer	\$ 44,228	\$ 54,768	\$ 54,397
Retiree	1,772	1,580	1,403
Total contributions	<u>46,000</u>	56,348	55,800
Net investment income:			
Interest, dividends and capital gains income	6,198	6,593	4,436
Change in fair value of investments	19,745	22,507	(9,095)
Investment fees	(245)	(106)	(128)
Total net investment income (loss)	<u>25,698</u>	28,994	(4,787)
Total additions	<u>71,698</u>	85,342	51,013
Deductions:			
Claims expense	12,973	11,604	10,153
Administrative service fees	456	457	428
Total deductions	<u>13,429</u>	12,061	10,581
Change in net position	<u>58,269</u>	73,281	40,432
Net position – restricted for other postemployment benefits:			
Beginning of period	216,526	143,245	102,813
End of period	<u>\$ 274,795</u>	<u>\$ 216,526</u>	<u>\$ 143,245</u>

Net position – restricted for other postemployment benefits increased by \$58.3 million and \$73.3 million in fiscal years 2014 and 2013, respectively. Employer contributions of \$44.2 million and investment earnings of \$25.7 million are the main reasons for the fiscal 2014 increase. Employer contributions of \$54.8 million and investment earnings of \$29.0 million were the main reasons for the fiscal 2013 increase.

The \$25.7 million investment related additions in fiscal 2014 were \$3.3 million less favorable than fiscal 2013. The \$29.0 million investment related additions in fiscal 2013 were \$33.8 million more favorable than fiscal 2012 when the Trust had an overall investment loss of \$4.8 million. The investment loss in fiscal 2012 was the result in a \$9.1 million decrease in the value of investments resulting from unfavorable market conditions.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Management's Discussion and Analysis (continued)

#### **Financial Highlights (continued)**

To increase diversification and reduce risk, the Trustees authorized the utilization of additional investment vehicles and strategies, other than mutual funds and ETFs. Refer to Note 4, Cash and Cash Equivalents and Investments, for a detailed description of the Trust's Investment Policy Statement.

Deductions from plan net position increased by \$1.4 million and \$1.5 million in fiscal years 2014 and 2013, respectively. The fiscal year 2014 and 2013 increases are primarily related to increases in claims expense.

Pennsylvania Turnpike Commission Retiree Medical Trust

Statements of Plan Net Position

	<b>May 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>	(In Thousands)	
Cash and cash equivalents	\$ 1,754	\$ 15,659
Interest and dividends receivable	275	115
Investments, at fair value	273,130	201,196
Total assets	275,159	216,970
<b>Liabilities</b>		
Claims payable	306	392
Other liabilities	58	52
Total liabilities	364	444
<b>Net position – restricted for other postemployment benefits</b>	\$ 274,795	\$ 216,526

*The notes to the financial statements are an integral part of this statement.*

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Statements of Changes in Plan Net Position

	<b>Years Ended May 31</b>	
	<b>2014</b>	<b>2013</b>
	(In Thousands)	
<b>Additions</b>		
Contributions:		
Employer	\$ 44,228	\$ 54,768
Retiree	1,772	1,580
Total contributions	<b>46,000</b>	56,348
Net investment income:		
Interest, dividends and capital gains income	6,198	6,593
Change in fair value of investments	19,745	22,507
Investment fees	(245)	(106)
Total net investment income	<b>25,698</b>	28,994
Total additions	<b>71,698</b>	85,342
<b>Deductions</b>		
Claims expense	12,973	11,604
Administrative service fees	456	457
Total deductions	<b>13,429</b>	12,061
Change in net position	<b>58,269</b>	73,281
<b>Net position – restricted for other postemployment benefits</b>		
Beginning of period	216,526	143,245
End of period	<b>\$ 274,795</b>	\$ 216,526

*The notes to the financial statements are an integral part of this statement.*

# Pennsylvania Turnpike Commission Retiree Medical Trust

## Notes to Financial Statements

May 31, 2014

### **1. Reporting Entity**

The Pennsylvania Turnpike Commission Retiree Medical Trust (the “Trust”) was established on May 30, 2008 as an irrevocable trust that is tax-exempt under Section 115 of the Internal Revenue Code.

The Trust is administered by six Trustees who are appointed by and serve at the pleasure of the Pennsylvania Turnpike Commission (the “Employer”). The chairman and vice chairman of the Trust are appointed by the Trustees and serve two-year terms.

### **2. Plan Description and Contribution Information**

The Employer maintains a welfare plan program (the “Plan”) for the purpose of providing benefits to eligible retirees and their dependents. The Plan is a single employer, defined benefit plan. The Trust was established to provide funding for the Plan. PNC Bank serves as custodian of the assets of the Trust. Payments from the Trust are made by the custodian at the direction of the Trustees. The Trust’s financial statements are not included in the financial statements of a public employee retirement system.

Plan benefit provisions and employee contributions are established and may be amended by the Employer.

#### **Plan Benefit Provisions**

##### *Management and Supervisory Union Employees/Retirees*

The benefits funded by the Trust include certain post-employment medical, prescription drug, dental and vision benefits to management and supervisory union employees who have reached 20 years of service and are under age 60; and benefit eligibility changes from 20 to 10 years for retirees 60 years of age or older. The same coverage is provided to surviving spouses or domestic partners and dependents of management and supervisory union retirees who retired on or after March 1, 2001. Surviving spouses or domestic partners of retirees who retired prior to March 1, 2001 are required to contribute the full cost of the coverage and dependents are offered coverage under COBRA. Medicare Part B premiums are paid by the retiree, spouse or dependent if age 65 or over, or under age 65 and disabled.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### **2. Plan Description and Contribution Information (continued)**

##### **Plan Benefit Provisions (continued)**

###### *Non-Supervisory Union Employees/Retirees*

The benefits also include certain post-employment medical and prescription drug benefits to non-supervisory union employees who have satisfied the eligibility requirements.

For Local 30 Professional and other non-supervisory union employees/retirees who were hired prior to January 1, 2011, the earlier of completion of 20 years of service or the later of attainment of age 60 and completion of ten years of service satisfies the eligibility requirements. The last five years of service must be with the Commission.

For Local 30 Professionals who were hired on or after January 1, 2011, the earlier of completion of 30 years of service or the later of attainment of age 60 and completion of 25 years of service satisfies the eligibility requirements. The last ten years of service must be with the Commission.

The same coverage is provided to spouses or domestic partners and dependents of eligible non-supervisory union retirees until the death of the retiree. Surviving spouses or domestic partners are required to contribute the full cost of coverage and dependents are offered coverage under COBRA.

The Trust was responsible for and made all of the required retiree claims and related administrative fee payments in fiscal years 2014 and 2013.

##### **Funding Policy**

The Employer has adopted a Retiree Medical Trust Funding Policy, effective September 17, 2008, whereby the Employer anticipates approving an annual contribution to the Trust in the amount of the Annual Required Contribution (“ARC”), as determined by the Employer’s actuary, during the approval of its annual operating budget.



## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 2. Plan Description and Contribution Information (continued)

##### Contribution Rates and Membership

Retiree and spouse contribution rates at May 31, 2014 were as follows:

- Management employees and union employees who retired prior to July 1, 1998 and October 1, 1997, respectively – the retiree/spouse contributes the full cost of coverage less the Employer’s monthly subsidy of \$19.28 once the retiree reaches age 65.
- Union employees who retired on October 1, 1997 or later – the retiree/spouse contributes the full cost of coverage less the Commission’s monthly subsidy of \$73.50 when the retiree or spouse reaches age 65.
- Surviving spouses and domestic partners are paying 100% of the premiums, except for surviving spouses of Management employees who retired after March 1, 2001.

Membership consists of the following as of January 1, 2014, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	1,283
Fully eligible active plan participants	684
Other active plan participants	1,329
Total participant count	3,296

Refer to Note 5, Funding Status and Funding Progress for additional information regarding the funding status and actuarial methods and assumptions used in the actuarial valuations of the Plan.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### **3. Summary of Significant Accounting Policies**

##### **Basis of Reporting**

The Pennsylvania Turnpike Commission Retiree Medical Trust is accounted for as a fiduciary fund. Accordingly, the basic financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). The Trust follows GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

Retiree contributions are recognized in the period in which the contributions are due. Contributions to the Trust are recognized when due and when the Employer has made a formal commitment to provide its contributions. Claims are recognized when due and payable in accordance with the terms of the Plan.

##### **Reclassifications**

Certain amounts presented in the prior period have been reclassified to conform to the current period financial statements presentation.

##### **Cash and Cash Equivalents**

Cash and cash equivalents include short-term investments with original maturities of 90 days or less.

##### **Investments**

Investments are stated at fair value and are based on published market rates. Securities for which market quotations are not readily available are valued at its net asset values provided by the Investment Company, which approximates fair value. Net asset values for share interests in private funds have been calculated in accordance with the specialized accounting guidance for Investment Companies.

##### **Claims Payable**

Liabilities for unpaid claims and administrative fees are accrued when the services are incurred and the costs are measurable.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 4. Cash and Cash Equivalents and Investments

Following is a summary of cash and cash equivalents and investments by type:

Asset Type	May 31	
	2014	2013
	(In Thousands)	
Mutual funds – equity	\$ 147,213	\$ 114,069
Mutual funds – fixed income	64,016	63,726
Hedge funds – alternative investment	16,259	11,108
Corporate bonds	13,504	-
Other alternative investment	13,481	2,000
Real estate – alternative investment	13,465	10,293
Stocks	5,192	-
Total investments	273,130	201,196
Cash and cash equivalents	1,754	15,659
Total cash and cash equivalents and investments	\$ 274,884	\$ 216,855

The Trustees have adopted an Investment Policy Statement (the “Policy”) for the purposes of documenting investment objectives and guidelines for the Trust’s assets, establishing an appropriate investment strategy for managing the Trust’s assets, establishing periodic performance and compliance reporting requirements, and complying with all fiduciary, prudence, due diligence, and legal requirements for the Trust’s assets.

In fiscal year 2014, revisions were made to update both asset allocations and benchmarks in the appendices to the Policy. The Trustees and the Investment Advisor to the Trust are implementing the guidelines established under the Policy. However, the process for full implementation of the guidelines takes time to complete.

The Trustees have the authority to implement the Policy in the sole and exclusive interest of the Trust to satisfy the purposes of the Trust. The Policy includes three investment objectives:

- To invest assets of the Trust in a manner consistent with prudent person fiduciary standards;
- To provide for funding and anticipated withdrawals on a continuing basis for payment of OPEB benefits and related expenses;
- To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objectives set forth in the Policy.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 4. Cash and Cash Equivalents and Investments (continued)

##### Permitted Investments

The Policy established the Trust's target asset allocations and ranges as follows:

Asset Class	Asset Weightings	
	Range	Target
U.S. equity	25% – 33%	29%
Non-U.S. equity	15% – 25%	15%
Fixed income and money market	14% – 18%	16%
Real estate	12% – 18%	15%
Global tactical asset allocation	7% – 13%	10%
Hedge fund of funds	7% – 13%	10%
Commodities	3% – 7%	5%

*Note: The Asset Allocation policy revision became effective on May 30, 2014.*

The asset allocation targets and ranges are used as guidelines rather than strict rules. The Trust may invest its assets in any investment structure the Trustees deem appropriate, including, but not limited to, separate accounts, mutual funds, commingled funds, ETFs, index funds, limited partnerships, master limited partnerships, and other collective investment structures.

##### *Cash Equivalents*

Cash reserves shall consist of cash instruments having a quality rating of “A-1”, “P-1” or higher, as established by Moody’s or Standard & Poor’s. Bankers’ acceptances, certificates of deposit and savings accounts must be made of United States banks or financial institutions or United States branches of foreign banks, which are federally insured with unrestricted capital of at least \$50 million. Short-term corporate obligations must be rated “A” or better by Moody’s or by Standard & Poor’s. Institutional money market funds utilized shall have similar underlying high quality, investment grade, securities.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 4. Cash and Cash Equivalents and Investments (continued)

##### Permitted Investments (continued)

###### *Equities*

For all separate accounts, investments may be made in common stocks, preferred stocks, tracking stocks, master limited partnerships, convertible securities, American Depository Receipts, ETFs, and publicly traded Real Estate Investment Trusts. All investments shall be readily marketable securities that are actively traded on a major exchange.

Not more than 6% of the total stock portfolio at market value may be invested in the common stock of any one company. Ownership of the shares of one company shall not exceed 2% of that company's outstanding shares. Not more than 25% of stock at market value may be held in any one industry category.

The non-U.S. equity allocation should include a diverse global mix of at least 10 countries. Currency hedging is permitted.

###### *Investment Grade Fixed Income*

Fixed income investments shall be high-quality, marketable securities with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade municipal or corporate issues including convertibles. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio, at the time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies.

The overall rating of the fixed income assets shall be at least "A", according to one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies have assigned ratings of "Baa3" or "BBB-" ratings, can be purchased up to a maximum of 20% of total market value of fixed income securities.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 4. Cash and Cash Equivalents and Investments (continued)

##### Permitted Investments (continued)

###### *High Yield Fixed Income*

The Trust may invest in high-yield fixed income securities, which include publicly traded debt securities, municipal bonds, domestic corporations, domestic banks, other United States financial institutions or mortgage/asset backed securities, and debt securities issued by foreign entities denominated in U.S. dollars which are traded domestically.

The Trust may invest in high-yield fixed income debt investments that have a minimum credit quality rating of “B-” (Standard & Poor’s and Fitch) or “B3” (Moody’s) as established by at least two of the three bond rating agencies. If only two of the rating agencies rate a security, the lower rating applies. Unrated bonds shall conform to the minimum quality ratings of the Policy. High yield fixed income debt investments are limited such that any one entity may not cumulatively exceed 5% of an individual manager’s total portfolio measured at market value.

###### *Global Fixed Income*

The Trust may invest in global fixed income in either a separate account or by utilizing mutual funds, EETFs, index funds, or commingled investment funds.

###### *Real Estate*

The Trust may invest in real estate utilizing mutual funds, REITs, ETFs, index funds, limited partnerships, master limited partnerships, commingled funds, insurance company separate accounts, insurance company annuities, open-end diversified commingled equity funds and other commingled investment structures. No direct real estate investments or real estate separate accounts shall be permitted unless authorized in writing by the Trustees.

###### *Hedge Fund of Funds*

The Trust may invest in hedge funds of funds through investment managers using mutual funds, index funds, commingled funds, limited partnerships or other investment structures specifically designed for tax-exempt investors.

###### *Private Equity*

The Trust may invest in private equity through limited partnerships, commingled funds, or other investment structures designed for tax-exempt investors.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 4. Cash and Cash Equivalents and Investments (continued)

##### Permitted Investments (continued)

###### *Commodities*

The Trust may invest in commodities through mutual funds, ETFs, commingled funds, limited partnerships, or other investment structures and may also invest with investment managers that are Commodity Trading Advisors registered with the Commodities Future Trading Commission.

###### *Infrastructure*

The Trust may invest in infrastructure investments through mutual funds, ETFs, commingled funds, limited partnerships, or other investment structures. No direct real asset investments shall be permitted unless authorized in writing by the Trustees.

###### *Global Tactical Asset Allocation*

The Trust may invest in global tactical asset allocation strategies through mutual funds, ETFs, commingled funds, limited partnerships, or other investment structures.

###### *Special Situations*

The Trust may invest in one or more special situations strategies that shall be managed to seek to achieve a competitive risk-adjusted rate of return, provide diversification benefits to the Trust and/or provide material collateral benefits beyond pure investment return.

The allocation of the Trust's assets as of May 31, 2014 is as follows:

<b>Asset Class</b>	<b>Range</b>	<b>Amount (In Thousands)</b>	<b>Percentage of Portfolio</b>
U.S. equity	25% – 33%	\$ 82,874	30.2%
Fixed income and money market	14% – 18%	\$ 79,274	28.8%
Non-U.S. equity	15% – 25%	\$ 55,452	20.2%
Real estate	12% – 18%	\$ 27,544	10.0%
Hedge fund of funds	7% – 13%	\$ 16,259	5.9%
Commodities	3% – 7%	\$ 13,481	4.9%
Global tactical asset allocation	7% – 13%	\$ -	0.0%

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 4. Cash and Cash Equivalents and Investments (continued)

##### Credit Risk

The Trust's exposure to credit risk at May 31, 2014 is as follows:

Debt Investments	Quality Rating					Not Rated	Total
	AAA	AA	A	BBB	Below BBB		
	(In Thousands)						
Mutual funds – fixed income	\$38,898	\$ 4,612	\$ 9,679	\$ 8,434	\$ 2,393	\$ -	\$64,016
Corporate bonds	69	-	-	-	13,435	-	13,504

##### Interest Rate Risk

On May 31, 2014, the effective duration of the Trust's debt investments, by type, is as follows:

Debt Investments	Fair Value (In Thousands)	Effective Duration (In Years)
Mutual funds – fixed income	\$ 64,016	2.45
Corporate bonds	13,504	2.53

#### 5. Funding Status and Funding Progress

The actuarial value of assets, AAL, and UAAL amounts for the fiscal years ended May 31, 2014 and 2012 in the chart below were obtained from actuarial valuations prepared by independent actuaries as of January 1, 2014 and March 1, 2012, respectively.

Fiscal Year Ended May 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
(Dollar Amounts in Thousands)						
2014	\$ 271,265	\$ 283,133	\$ 11,868	95.8%	\$ 126,699	9.4%
2012	152,341	250,750	98,409	60.8	124,241	79.2

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information depicting the change in the actuarial value of Plan assets relative to the actuarial accrued liability for benefits.



## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 5. Funding Status and Funding Progress (continued)

##### Actuarial Methods and Assumptions

The valuation measurements in the above chart are, in part, the result of estimates of the value of reported amounts and assumptions about the probability of events in the long term. Such actuarially determined estimates are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Also, the valuation measurements are based, in part, on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of the sharing of costs between the Employer and the Plan members through the respective valuation dates. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of the actuarial methods and assumptions used in the January 1, 2014 valuation is as follows:

Actuarial cost method	Projected Unit Credit
Discount rate	7%
Rate of return on assets	7%
Amortization method	Level dollar
Amortization period	
• UAAL as of March 1, 2012	10 years (closed)
• Subsequent changes	10 years (open)
Asset valuation method	Fair value
Benefit Assumption – increases/decreases	No changes

**Health Cost Trend:** The healthcare trend assumption for medical and pharmacy benefits and premiums is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except real GDP growth is assumed to be 1.8% per year, for fiscal years 2016 and later. Further adjustments are made for aging, percentage of costs associated with administrative expenses, inflation on administrative costs, and potential excise tax due to Healthcare Reform.

## Pennsylvania Turnpike Commission Retiree Medical Trust

### Notes to Financial Statements (continued)

#### 5. Funding Status and Funding Progress (continued)

##### Actuarial Methods and Assumptions (continued)

The health cost trend assumption for medical and pharmacy benefits at sample years is as follows:

Valuation Year Ending February	Pre-65 Trend	Post-65 Trend
2014	6.0%	6.3%
2015	5.6%	5.8%
2016	5.3%	5.6%
2017	5.6%	5.6%
2018	5.6%	5.6%
2023	5.6%	5.5%
2028	6.8%	5.4%
2033	6.7%	5.4%
2038	6.2%	5.2%
2043	5.8%	5.0%
2048	5.6%	5.6%
2053	5.5%	5.5%

The health cost trend assumptions for dental and vision benefits and premiums are assumed to be 4.0% per year.

Salary increases were not considered as OPEB benefits are not based upon pay.

## Required Supplementary Information

Pennsylvania Turnpike Commission Retiree Medical Trust

Required Supplementary Information

**Schedule of Funding Progress (Unaudited)**

*(Dollar Amounts in Thousands)*

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Accrued Liability (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
January 1, 2014	\$ 271,265	\$ 283,133	\$ 11,868	95.8%	\$ 126,699	9.4%
March 1, 2012	152,341	250,750	98,409	60.8	124,241	79.2
March 1, 2010	66,436	263,398	196,962	25.2	123,754	159.2

Following is a listing of changes in assumptions used in the January 1, 2014 valuation compared with previous valuations.

- Per capita claims costs were updated based on recent experience of Commission retirees and the healthcare trend was updated.
- Assumed health plan elections for members attaining age 65 were modified from 2/3<sup>rd</sup> electing Signature 65 and 1/3<sup>rd</sup> electing Freedom Blue (without Rx) to 60% electing Signature 65 and 40% electing Freedom Blue (without Rx).
- The assumed percentage of eligible female members covering a spouse decreased from 50% to 40%.

Pennsylvania Turnpike Commission Retiree Medical Trust

Required Supplementary Information (continued)

**Schedule of Employer Contributions (Unaudited)**

*(Dollar Amounts in Thousands)*

<b>Year Ended May 31</b>	<b>Annual Required Contribution</b>	<b>Employer Contribution</b>	<b>Percentage Contributed</b>
2014	\$ 18,353	\$ 44,228	241.0%
2013	23,423	54,768	233.8
2012	28,821	54,397	188.7
2011	26,703	28,505	106.7
2010	29,144	28,677	98.4

**INVESTMENT POLICY STATEMENT (“Policy”)**

**FOR**

**PENNSYLVANIA TURNPIKE COMMISSION RETIREE  
MEDICAL TRUST (“Trust”)**

**FOR**

**OTHER POST EMPLOYMENT BENEFITS (“OPEB”) TRUST**

**Amended: May 30, 2014**

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## **Background**

The Pennsylvania Turnpike Commission (the "Employer") has established the Pennsylvania Turnpike Commission Retiree Medical Trust (the "Trust"). The Trust is intended to provide for funding of non-pension other post-employment benefits ("OPEB") for employees who meet the eligibility requirements outlined in the Employer plan documents. The Employer has appointed Trustees (the "Trustees") of the Pennsylvania Turnpike Commission Retiree Medical Trust to establish and monitor appropriate policies and procedures related to the operation and administration of the Trust.

## **Purpose**

This Investment Policy Statement ("Policy") establishes the investment objectives of the Trust and governs the investment practices of the Trust. The purpose of this Policy is to achieve the following:

1. Document the investment objectives and guidelines for the Trust assets;
2. Establish an appropriate investment strategy for managing the Trust assets, including establishing permitted investment strategies, vehicles, the investment horizon, risk tolerance, liquidity requirements, and asset allocation;
3. Establish periodic performance and compliance reporting requirements that will effectively monitor investment results and ensure the investment policy is being followed;
4. Comply with all fiduciary, prudence, due diligence and legal requirements for the Trust assets.

## **Investment Authority**

The Trustees have authority to implement this Policy in the sole and exclusive interest of the Trust to satisfy the purposes of the Trust. In implementing this Policy, the Trustees may delegate certain functions to:

1. Investment Managers, who shall invest the portion of the Trust assets placed under their control in accordance with this Policy. Investment Managers are accorded full discretion, within the general and specific Policy guidelines, to select and implement the purchase and sale of securities.
2. An Investment Consultant to provide comprehensive and continuous investment advice to the Trustees, and to assist the Trustees in the investment process and to maintain compliance with this Policy. The Investment Consultant may assist in reviewing and recommending changes to this Policy and the Trust's objectives and guidelines; assist in evaluating and selecting Investment Managers and investment vehicles; provide ongoing review and monitoring of Investment Managers; measuring and evaluating investment performance; and other tasks as deemed appropriate by the Trustees and as stated in the Contract with the Investment Consultant. The Investment Consultant must be registered with the Securities and Exchange Commission.



3. A Custodian to physically maintain possession of securities, certificates, shares, or other indicia of ownership owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales, among other things. The Custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust as authorized by the Trustees.
4. Additional professionals, such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the Trustees in meeting its responsibilities and obligations to administer Trust assets prudently.

### **Statement of Investment Objectives**

The investment objectives of the Trustees are as follows:

1. To invest assets of the Trust in a manner consistent with prudent person fiduciary standards:
  - a. All transactions undertaken must be for the sole and exclusive interest of the Trust;
  - b. To defray reasonable expenses in a prudent manner;
  - c. Diversify assets in order to minimize the impact of large losses in single individual investment.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of OPEB benefits and related expenses.
  - a. To conserve and enhance the value of Trust assets in real terms through asset appreciation and income generation;
  - b. To establish an investment strategy in accordance with a risk level the Trustees determine to be appropriate for the objectives and goals of the Trust.
3. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objectives set forth in this Policy under the section labeled "Performance Expectations".

### **Governing Law**

Notwithstanding anything to the contrary herein, the provisions of this Policy shall comply with all applicable law and shall be administered and interpreted in a manner consistent with applicable law, including but not limited to the laws of the Commonwealth of Pennsylvania. Any provision herein that is not consistent with applicable laws shall be disregarded.

### **Investment Guidelines**

#### **Investment Horizon**

The Trust's investment objectives have been determined to be a 20-25 year investment horizon so that interim fluctuations should be viewed with appropriate perspective. The Trustees have adopted a long-term investment horizon such that the chance and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The long-term nature of the Trust's investments generally mirrors the long-term nature of the associated

liabilities that the Trust was created to fund along with the likely future contribution flow to the Trust. If at some time in the future the estimated duration of the liabilities becomes shorter, the Trustees will consider shortening the investment horizon of the Trust.

### **Diversification**

In general, the Trust will maintain adequate liquidity to meet benefit payments and expenses in cash or cash equivalents. The remaining assets may be invested in longer term investments. The total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments and industries.

### **Asset Allocation**

The Trustees shall periodically conduct asset allocation and risk assessment studies to determine and adopt the asset allocation that they believe has the greatest likelihood of meeting the Trust's investment objectives, while also representing an appropriate balance between risk, return and diversification. The Trust assets will be invested in accordance with the asset allocation targets and ranges adopted by the Trustees for each asset class or investment strategy as reflected in Appendix A of this Policy.

Investment Managers shall have discretion to invest a portion of the assets they manage in cash reserves when they deem it appropriate. Investment Managers will be evaluated against appropriate benchmarks for the funds under their management as reflected in Appendix B of this Policy.

### **Rebalancing**

The asset allocation targets and ranges established by this Policy represent a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the Policy range. When these divergences occur, the Investment Consultant shall advise the Trustees to rebalance the asset mix to fall within appropriate allocation ranges. Similarly, if the cash required to meet liquidity needs falls to a level where near term distributions cannot be met, the Investment Consultant will advise the Trustees to increase cash reserves to appropriate levels.

When the Investment Consultant is notified of new contributions to the Trust, the Investment Consultant will review the Trust's current asset allocation and advise the Trustees as to the most appropriate allocation of cash and rebalancing transfers required to fall within the Asset Allocation ranges.

### **Performance Expectations**

Over the long term, the performance objective for Trust assets will be to achieve a long-term total annualized rate of return that is equal to or greater than the Trust's actuarial return assumption. Additionally, it is expected that the return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be evaluated by reviewing returns in the context of industry standard benchmarks, for each asset class and individual Investment Managers, and blended benchmark comparisons for the Trust in its entirety.

### **Selection of Investment Managers**

The Trustees shall establish, in consultation with the Investment Consultant, agreed upon procedures for the identification and evaluation of Investment Managers to be retained by the Trust. The Investment Manager identification, retention and termination process shall be open, transparent, comprehensive, and use objective criteria to the extent possible, but may use different criteria and processes depending on the implementation vehicle being used, such as separate accounts, commingled funds, mutual funds, Exchange Traded Funds (“ETFs”), index funds, limited partnerships, master limited partnerships, or other collective investment structures.

### **Permitted Investment Strategies and Guidelines**

The Trustees shall make every effort to prudently select Investment Managers and investment vehicles that follow the guidelines in this Policy, however, the Trust may invest its assets in any investment structure the Trustees deem appropriate, including, but not limited to, separate accounts, mutual funds, commingled funds, ETFs, index funds, limited partnerships, master limited partnerships, and other collective investment structures.

Every effort shall be made, to the extent practical, prudent and appropriate, to select mutual funds, commingled funds, ETFs, limited partnerships, master limited partnerships, and other collective investment structures, that have investment objectives and policies that are consistent with this Policy. However, given the nature of these collective investment structures, it is recognized that there may be differences between this Policy and the objectives and governing documents of the collective investment structures utilized by the Trust.

### **Cash Equivalents**

Cash reserves shall consist of cash instruments having a quality rating of A-1, P-1 or higher, as established by Moody's or Standard & Poor's. Bankers' acceptances, certificates of deposit and savings accounts must be made of United States banks or financial institutions or United States branches of foreign banks, which are federally insured with unrestricted capital of at least \$50 million. Short-term corporate obligations must be rated A or better by Moody's or by Standard & Poor's. Institutional money market funds utilized shall have similar underlying high quality, investment grade, securities.

### **Equities**

For all separate accounts, investments may be made in common stocks, preferred stocks, tracking stocks, master limited partnerships, convertible securities, American Depository Receipts (“ADRs”), ETFs, and publicly-traded Real Estate Investment Trusts (“REITs”). All investments shall be readily marketable securities that are actively traded on a major exchange. The overall equity portfolio should be structured so that there is reasonable diversification between growth and value styles and capitalization size.

Equity investment in any one company, in a separate account of a given Investment Manager, shall be limited to not more than 6% of the total stock portfolio at market value. Ownership of the shares of one company shall not exceed 2% of that company's outstanding shares. Not more than 25% of stock, valued at market, may be held in any one industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Investment Managers.

Master limited partnerships are allowed in equity portfolios only if the Investment Manager has conducted thorough due diligence on the partnership and has determined that the issue is an appropriate investment under the letter and spirit of this Policy. It is the responsibility of the Investment Manager to determine that the investment is sufficiently liquid and will not generate unrelated business income tax ("UBTI"). The overall non-U.S. equity allocation should include a diverse global mix of at least 10 countries. Currency hedging is permitted.

### **Investment Grade Fixed Income**

Fixed income investments in separate accounts shall be high quality, marketable securities with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade municipal or corporate issues including convertibles. Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio, at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies.

The overall rating of the fixed income assets shall be at least "A", according to one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies (Fitch, Moody's or Standard & Poor's) have assigned ratings of Baa3 or BBB- ratings, can be purchased up to a maximum of 20% of total market value of fixed income securities. If the credit quality of any one issue should drop below investment grade (as defined by two of the three rating agencies - Fitch, Moody's and Standard & Poor's), the Investment Manager should notify the Trustees and the investment advisor immediately detailing their plan of action regarding the security. All To Be Announced ("TBA") investments shall be issued by a Federal Agency and must be of investment grade. Active management is encouraged and may require transactions that will temporarily lower the return or change the maturity of the portfolio in anticipation of market changes. Holdings of individual securities should be liquid so as not to incur unnecessary transaction costs.

### **High Yield Fixed Income**

The Fund may invest in high yield fixed income securities through Investment Managers in either a separate account or by utilizing mutual funds, ETFs, index funds, or commingled investment funds. High Yield Fixed Income investments shall mean publicly traded debt securities, municipal bonds, domestic corporations and domestic banks and other United States financial institutions or mortgage/asset backed securities. Debt securities issued by foreign entities denominated in U.S. dollars which are traded domestically are also available for investment.

High yield fixed income debt investments, held in a separate account, are limited to the first six quality grades as established by Standard & Poor's, Fitch or Moody's. Credit ratings for the securities held in the portfolio shall be limited to B- (Standard & Poor's/Fitch) or B3 (Moody's) and above as established by at least two of the three bond rating agencies. If a security is rated by all three agencies, two of the agencies must rate the security B- or B3 or above. If only two of the rating agencies rate a security, the lower rating applies. Unrated bonds shall conform to the minimum quality ratings of this Policy.

High yield fixed income debt investments, held in separate account, are limited such that any one entity may not cumulatively exceed 5% of an individual manager's total portfolio measured at market value.

### **Global Fixed Income**

The Fund may invest in global fixed income through Investment Managers in either a separate account or by utilizing mutual funds, ETFs, index funds, or commingled investment funds.

### **Real Estate**

The Fund may invest in real estate utilizing mutual funds, REITs, ETFs, index funds, limited partnerships, master limited partnerships, commingled funds, insurance company separate accounts, insurance company annuities, open-end diversified commingled equity ("ODCE") funds and other commingled investment structures. No direct real estate investments or real estate separate accounts shall be permitted unless authorized in writing by the Trustees.

### **Hedge Fund of Funds**

The Fund may invest in hedge fund of funds through Investment Managers using mutual funds, index funds, commingled funds, limited partnerships or other investment structures specifically designed for tax-exempt investors. Hedge fund of funds investments should meet the following requirements:

- The hedge fund of funds manager is domiciled in the United States.
- Leverage is not utilized by the hedge fund of funds manager at the fund of funds level.
- Unrelated Business Taxable Income (UBTI) is not passed to tax-exempt investors.
- The hedge fund of funds manager has exercised proper due diligence in the selection, retention, and termination of the underlying hedge funds they invest in.
- The hedge fund of funds manager acknowledges that, at least annually, all of the underlying hedge funds they invest in provide adequate holdings and risk disclosures, provide audited financial statements, and utilize unaffiliated, independent, third-party administrator/custodians.
- The hedge fund of funds manager receives written independent pricing for each hedge fund's net asset value from an unaffiliated, independent, third-party administrator/custodian on a monthly basis.
- The hedge fund of funds manager is registered with the SEC as an Investment Advisor.
- The hedge fund of funds manager carries E&O insurance of at least \$5 million.

### **Private Equity**

The Trust may invest in private equity through limited partnerships, commingled funds, or other investment structures designed for tax-exempt investors.

### **Commodities**

The Trust may invest in commodities through mutual funds, ETFs, commingled funds, limited partnerships or other investment structures. The Trust may also invest with Investment Manager that are Commodity Trading Advisors (“CTAs”) that are registered with the Commodities Futures Trading Commission (CFTC).

### **Infrastructure**

The Trust may invest in infrastructure investments through mutual funds, ETFs, commingled funds, limited partnerships or other investment structures. No direct real asset investments shall be permitted unless authorized in writing by the Trustees.

### **Global Tactical Asset Allocation**

The Trust may invest in global tactical asset allocation (“GTAA”) strategies through mutual funds, ETFs, commingled funds, limited partnerships or other investment structures.

### **Special Situations**

The Trust may invest in one or more special situations strategies that shall be managed to seek to achieve a competitive risk-adjusted rate of return, provide diversification benefits to the Trust and/or provide material collateral benefits beyond pure investment return. A wide range of investment approaches and activities are contemplated. By way of example, but not by way of limitation, any or all of the following would be considered in the Special Situations allocation:

- The utilization of Minority, Woman or Veteran Owned enterprises;
- Economically targeted or region specific investment strategies;
- Sustainable growth and environmentally friendly investments;
- Investments and proxy voting that support socially responsible and social justice issues;
- Unique or one-of-a-kind strategies that may or may not have any comparable or peer providers.

The Trustees’ duties as defined by the Trust document, Pennsylvania law, and the general Investment Policy Statement take precedence over any other considerations. Other considerations will be entertained only when not in conflict with any of these duties. It is recognized that investments made for the sole benefit of the Trust beneficiaries may also generate positive collateral benefits.

- 1) The Trustees shall consider investments which, when judged solely on the basis of economic value, would be financially comparable to alternatively available investments. Comparability will be judged on a risk-adjusted basis with the Trust being willing to accept no less in return and incur no additional risk or cost.
- 2) The collateral benefits shall not be considered part of the return to the Trust. The decision to invest may occur only after the investment is deemed acceptable to the Trustees exclusively on its economic merits.

- 3) Investment selection shall be consistent with the Trustees fiduciary obligations and approved investment policies and guidelines. Investments must conform at all times with applicable laws, requirements, policies and procedures governing the Trust. Special situations investments shall be allocated to and be part of the asset class that is the most similar in terms of asset type, portfolio classification and characteristics among the approved Asset Allocation categories as listed in Appendix A of this policy statement.
- 4) Investments shall receive a prudent level of due diligence. The due diligence shall be consistent with the investment asset type and portfolio classification and at a minimum shall address:
  - a. Legal sufficiency – Registration with appropriate regulatory bodies and the absence of material regulatory and compliance violations;
  - b. Identification of any potential conflicts of interest;
  - c. Investment sufficiency – The standard for investment sufficiency shall be consistent with those industry standards of due diligence normally applied to each specific asset type.
  - d. A Public Request for Proposal (RFP) process may not be practical or feasible in all situations, thus a public RFP requirement may be waived by the Trustees. A suitable and prudent alternative due diligence process shall be used in its place. Examples of such situations would include, but not be limited to, situations where there are no or few comparable products and candidates; or situations where comparable products and candidates do exist, but where a search of public or commercially available databases and websites would result in the identification of the vast majority of all eligible candidates (e.g., Lipper or Morningstar databases for mutual funds, The Pennsylvania Department of General Services database for Pennsylvania Certified M/W/VBEs).

### **Safekeeping**

All securities, certificates, shares, or other indicia of ownership, shall be held by a Custodian appointed by the Trustees for safekeeping. The Custodian shall produce statements monthly listing the name and value of all assets held, and the dates and nature of all transactions. Assets of the Trust held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts.

### **Transactions**

Investment Managers executing security transactions for the benefit of the Trust where brokerage commissions apply shall attempt to obtain the best execution for the security transaction. In executing the security transactions, the Investment Managers shall employ standard industry practices to ensure best execution of those transactions. Among the considerations that the Investment Manager must evaluate are brokerage cost, spreads, and quality. In addition to securing best execution, Investment Managers may be asked to participate in a commission recapture program in order to further improve the cost of security transactions to the Trust. The decision to utilize a commission recapture program through the custodian or a broker will be exclusively the decision of the Trustees of the Trust.

**Review of this Investment Policy Statement**

The Trustees shall review, at least annually, this Policy for its continued appropriateness in achieving the Trust's objectives. It is not expected that the Policy will change frequently. In particular, short term changes in the financial markets should not require an adjustment in the Policy.

**Review of Investment Performance**

The Investment Consultant shall provide written performance reports on the Investment Managers and the investment vehicles used by the Trust to the Trustees at least quarterly. In addition, the Investment Consultant is responsible for keeping the Trustees advised of any material changes regarding the Investment Managers, the investment vehicles used by the Trust, and other factors that may affect the performance of the Trust assets.

**Voting of Proxies**

Investment Managers of separate accounts are to vote all proxies with the interest of preserving or enhancing the Trust's value. Investment Managers of collective investment vehicles are expected to vote all proxies in accordance with their own proxy voting policy and to preserve or enhance the value of their investment holdings.

**Adoption of Investment Policy Statement**

Any changes or exceptions to this Policy will be made in writing and adopted by the Trustees. Once adopted, changes and exceptions will be delivered in writing to each Investment Manager, as appropriate, by the Investment Consultant.

**Severability**

If any provision or provisions of this Policy is held to be invalid, illegal, unenforceable or in conflict with the law of any jurisdiction, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired. Invalidity or unenforceability of one or more provisions of this Policy shall not affect any other provision of this Policy.

**Approved and Adopted by the Board of Trustees of the Pennsylvania Turnpike Commission Retiree Medical Plan**

May 30, 2014

Date



Authorized Signatory



Authorized Signatory



**Appendix A**  
**OPEB Trust Asset Allocation and Ranges**  
 Adopted by the Trustees on May 30, 2014

<b>Asset Class</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>
<b>U.S. Equity</b>	25%	<b>29%</b>	33%
Large Cap	15%	19%	23%
Small Cap	7%	10%	13%
<b>Non-U.S. Equity</b>	15%	<b>15%</b>	25%
Developed Markets	7%	10%	13%
Emerging Markets	3%	5%	8%
<b>Fixed Income</b>	14%	<b>16%</b>	18%
Cash Reserves	0%	1%	3%
Investment Grade	3%	5%	7%
Global Fixed Income	3%	5%	7%
High Yield	3%	5%	7%
<b>Real Estate</b>	12%	<b>15%</b>	18%
ODCE Funds	7%	10%	13%
ODCE Value-Added	3%	5%	7%
<b>Commodities</b>	3%	<b>5%</b>	7%
<b>Global Tactical Asset Allocation (GTAA)</b>	7%	<b>10%</b>	13%
<b>Hedge Fund of Funds</b>	7%	<b>10%</b>	13%
Core Diversified	5%	7%	10%
Special Situations / Credit	0%	3%	5%

**Appendix B**  
**OPEB Trust Manager/Strategy Benchmarks**  
 Adopted by the Trustees on May 30, 2014

<b>Asset Class</b>	<b>Benchmark</b>
<b>U.S. Equity</b>	Russell 3000 Index
Large Cap Core	Russell 1000 Index
S&P 500 Index	S&P 500 Index
Large Cap Value	Russell 1000 Value Index
Large Cap Growth	Russell 1000 Growth Index
Small Cap Core/Index	Russell 2000 Index
Small Cap Value	Russell 2000 or 2500 Value Index
Small Cap Growth	Russell 2000 or 2500 Growth Index
<b>Non-U.S. Equity</b>	
Developed Markets	MSCI EAFE (net) Index
Emerging Markets	MSCI Emerging Markets Index
<b>Fixed Income</b>	
Cash Reserves	Average 30 Day Treasury Bill Rate
Short Term Investment Grade	Barclays 1-5 Yr Gov/Credit
Global Bonds	Citigroup World Gov't Bond x U.S. Index
Short Duration High Yield	BofA ML US High Yield 1-3 Yr BB Index
<b>Real Estate</b>	
Core ODCE	NCREIF ODCE Equal Weight Index
Value-Added ODCE	NCREIF ODCE Equal Weight Index + 1%
<b>Commodities</b>	S&P GSCI Total Return Index or DJ-UBS Commodity Index
<b>Hedge Fund of Funds</b>	HFRI HFOF Composite Index
Core Diversified	HFRI HFOF Composite Index
Special Situations / Credit	HFRI Event Driven Index or IRR*

\*Internal Rate of Return for vintage year funds and/or absolute return strategies.

## **Addendum No. 1**

RFP # 14-10320-4964

Investment Consultant Services (OPEB)

**Prospective Respondents: You are hereby notified of the following information in regard to the referenced RFP:**

### REVISION

1. The response date referenced in Part I-11 of the RFP has been extended and revised as follows:  
I-11. Response. To be considered, proposals must be delivered to the Pennsylvania Turnpike Commission's Contracts Administration Department, Attention: Wanda Metzger, on or before ~~Friday, October 31, 2014~~ **Friday, November 14, 2014** at 2:00 p.m. local time.

All questions submitted in response to the above referenced RFP as of October 15, 2014, will be answered on a separate Addendum that will be posted at a later date.

All other terms, conditions and requirements of the original RFP dated September 26, 2014 remain unchanged unless modified by this Addendum.

## **Addendum No. 2**

RFP # 14-10320-4964

Investment Consultant Services (OPEB)

**Prospective Respondents: You are hereby notified of the following information in regard to the referenced RFP:**

Following are the answers to questions submitted in response to the above referenced RFP as of October 15, 2014. All of the questions have been listed as received by the Pennsylvania Turnpike Commission.

- 1. Would the Commission be open to RFP submissions from investment managers who use the implemented consulting approach or OCIO model for managing assets?**

Answer: Please see section 1-4B of the RFP.

- 2. Would the Commission be open to a different alternative to the investment consultant model that IPS provides today?**

Answer: Please see Answer 1.

- 3. Is it required the provider be registered with the SEC under the Investment Advisers Act of 1940 (as a bank we are regulated by the OCC and have discretionary trustee authority)?**

Answer: Please see Appendix D section titled Investment Authority.

- 4. Would the Pennsylvania Turnpike Commission allow the new provider to act as custodian of the assets?**

Answer: No. Custodial services are not part of this request.

- 5. Could you please provide a list of your current investment managers?**

Answer: The trust will provide this information to the selected Investment Consultant.

- 6. What are the annual fees for the existing contract that the Commission is paying to its current consultant and what are the services they provide for fees received?**

Answer: The current Consultant is being paid a fixed annual fee of \$55,000 that is inclusive of all travel and expenses for the current contract year.

**7. Are there project-related fees associated with the current arrangement that are not part of the base fee?**

Answer: There are no project related fees with the current arrangement.

**8. How many meetings with the Board of Trustees and the Pennsylvania Turnpike Commission are anticipated per year?**

Answer: The Trustees anticipate at least 4 meetings per year.

**9. Do you have a schedule of these meetings?**

Answer: The dates and time of meetings are usually established 30 days in advance.

**10. Do you have a separate alternative assets consultant?**

Answer: No, we have one investment consultant who advises on all the investments.

**11. Do you currently use fund of funds or direct funds for your alternative investments?**

Answer: Currently we are using fund of funds.

**12. Do you anticipate making any changes to the asset allocation of the Trust? Are you considering any new asset classes?**

Answer: We anticipate the consultant will make rebalancing and asset class recommendations based on the Trust's adopted Investment Policy Statement and then-current market conditions.

**13. What is the most important investment issue your Trust is currently facing?**

Answer: Meeting the Investment Objectives outlined in the Investment Policy Statement which is attached as Appendix D.

**14. What is the name of the current manager?**

Answer: Investment Performance Services, LLC

**15. What is the name of the product in place?**

Answer: The trust is not invested in a single product. See Appendix D.

**16. How many assets are under management as of 09/30/2014?**

Answer: Market Value of the trust as of 8/29/2014: \$288,322,991.60

**17. In preparing a cost proposal, which type of compensation is preferred by the PA Turnpike Commission?**

Answer: Please see RFP Section II-2.

**18. What is the name of managers, product name and assets per manager as of 09/30/2014?**

Answer: Please see answer 5

**19. Will the appointed investment consultant report to the Pennsylvania Turnpike Commission, to the Trustees or to a delegate/staff of the Commission?**

Answer: Investment consultant will report to the Trustees.

**20. Is there a designated term for the appointed Trustees? Are any change anticipated?**

Answer: There are no designated terms for the appointed Trustees. The Chair and Vice Chair of the Trust serve 2 year terms. No changes are anticipated at this time.

**21. Is there Union representation among the appointed Trustees?**

Answer: No.

**22. Will the appointed consultant have access to the liability information from the current actuary?**

Answer: The Trust will provide this information to the selected investment consultant.

**23. It appears that the last asset allocation was completed in early 2014. Was this a complete asset liability study or just an asset allocation study? Who completed the study? Will the appointed investment consultant have access to the report?**

Answer: Changes were made to the Trust's asset allocation in May of 2014 based on an asset allocation study. The study was completed by the current investment consultant to the trust, Investment Performance Services, LLC. The Trust may provide this information to the selected investment consultant.

**24. It appears that not all the asset class mandates designated in the 2014 asset allocation study were implemented (no exposure to the Global Tactical Asset Allocation-GTAA). Is this still in progress? Will you be adding a GTAA mandate to the portfolio?**

Answer: Strategies from the most recent asset allocation changes are still being implemented and the Trustees are in the middle of the RFP process to select a GTAA manager.

**25. It appears that the current asset allocation is over-weighted to Fixed Income. Will the appointed investment consultant be responsible for aligning the assets with current target mixes? Will the reallocation of the over-weighted fixed income assets necessitate new manager searches or will the assets be added to the managers currently in the portfolio.**

Answer: Please refer to section 1-4B of the RFP.

**26. Who is responsible for rebalancing the assets? How frequently is that done- Annually? Quarterly?**

Answer: Please see page 5 of Appendix D.

**27. Do you anticipate any future changes to the plan manager structure? Do you anticipate adding or decreasing exposures to any asset classes in particular? Are there any strategic changes that are being anticipated given that the plans are well funded?**

Answer: Please see answer 25 and Appendix D Investment Policy Statement.

**28. Are any of the investment managers currently on performance watch, or are there any anticipated manager additions or terminations anticipated?**

Answer: Trustees and their investment consultant are continuously monitoring all managers for performance and other objective criteria for identifying, retaining and terminating investment managers.

**29. Who is the incumbent investment consultant?**

Answer: See answer 14. .

**30. Is there any reason why the current consultant is not able to continue in such capacity?**

Answer: The contract expires in 2015.

**31. What is the reason for the current investment consulting RFP? Is the Commission dissatisfied with any of the current arrangements?**

Answer: Please see answer 30.

**32. Who is the current Actuary for the plan?**

Answer: Milliman

**33. May we get a copy of the most recent actuarial report?**

Answer: The Trust will provide this information to the selected investment consultant.

**34. What are the top three challenges facing the Commission/ Trustees?**

Answer: Please see answer 13.

**35. Do you have a copy of the most recent performance report? Are you willing to share it? Is there anything you would like to add to the report?**

Answer: The Trust will provide this information to the selected investment consultant.

**36. What is the current investment consulting fee? Please identify the fee structure and what is included.**

Answer: Please see answer 6.

**37. Who are the decision makers for this RFP process?**

Answer: The Trustees.

**38. Appendix B, Page 3: How do you differentiate between primary and excess policies in order to meet the minimums set-forth by your requirements?**

Answer: Proposer must meet the minimum insurance requirements as listed in Appendix B.

**39. Appendix B, Item 2e, page 4: What is meant by the phrase, “No amendment to the definition of an “Insured Contract”.**

Answer: The standard ISO form includes a definition for “Insured Contract”.

**40. Appendix B, Item 4b, page 4: We have \$4M Umbrella Liability coverage, which is lower than your \$10M requirement. Is this acceptable? We currently have the standard insurance coverage required for financial consulting firms. Please find our schedule of insurance in the attached document.**

Answer: Please see answer 38.

**41. Appendix B, Item 5c, page 4: What is the meaning of “Green Building” within the context of the required insurance coverage?**

Answer: “Green Building” is one built to LEED standards.



**42. Appendix B, Item 7, page 5: We do not have Cyber Liability coverage. Is this acceptable?**

Answer: Please see answer 38.

**43. Part I, part B (Required Services), 6th bullet: “Provide advice to the Trustees concerning market conditions and security specific issues.” We do not provide consulting services on specific securities. We have the ability to provide security data, including positions, market values and transactions with respect to your portfolios, as provided by your custodian or transfer agent. Is this acceptable?**

Answer: Please see answer 1.

**44. How many meetings would we be required to attend on an annual basis? Are separate meetings required for the Board of Trustees and the Pennsylvania Turnpike Commission, or are these meetings held on the same dates?**

Answer: Frequency and volume of meetings will vary from year to year. The Trustees anticipate investment Consultant attendance at a minimum of 4 meetings per year that are usually coordinated with Commission meetings.

**45. When was the last time a portfolio structure review was conducted? We view portfolio structure as an exercise that follows the strategic asset allocation decision to optimize the manager structure of the program (e.g., how much to allocate to passive investments, style-specific investments, core fixed income, high yield and emerging markets debt vs. core plus fixed income, etc...).**

Answer: Please see answer 23 and appendix D Investment Policy Statement.

**46. Part I-12, (Proposals). By “contents”, what specific provisions would become contractually binding in the proposal response? The term “contents” is a broad statement. We want to ensure we understand your specific requirements.**

Answer: The entire proposal becomes a contractual obligation.

**47. Part II, Question G, Assets Advised Upon: We do not track our clients’ cumulative equity and fixed income assets. However, we do track total assets under client management for the following: sponsor type(i.e. corporate, public etc.), fund type (i.e. defined benefit, defined contribution etc.) and parent industry. Would this be acceptable in our RFP response?**

Answer: Please see answer 1.

All other terms, conditions and requirements of the original RFP dated September 26, 2014 remain unchanged unless modified by this Addendum.