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March 30, 2009

Gavin Cohen  
Executive Secretary  
111 Maryland Avenue  
Rockville, MD 20854

**RE: Proposal to Conduct Vendor Search Services for City of Rockville Thrift Plan**

Dear Gavin:

As a follow-up to our recent meeting, we have prepared this letter to describe our consulting services that Segal Advisors, Inc. would provide to conduct a comprehensive vendor search and evaluation for the City of Rockville Thrift Plan.

Our vendor search and evaluation services are provided through our dedicated consulting services, DC-Connect<sup>®</sup>. DC-Connect consulting services are provided by Segal Advisors, Inc., an SEC registered investment consulting affiliate of The Segal Company. The term DC-Connect was chosen to convey the fact that the success of any defined contribution plan requires an effective connection between the vendors' investment offerings, participant communication materials and on-going recordkeeping capabilities. We are one of the few investment consulting organizations that has a dedicated staff that is fully allocated to assisting Plan Sponsors in conducting vendor search and evaluations for their defined contribution employee benefit programs. It should be noted that we have conducted over 150 similar projects and have extensive experience related to both contract negotiations and transition services.

**FIDUCIARY DUE DILIGENCE**

Ensuring that your members and their employees are receiving the maximum benefits and rewards from the City of Rockville's Thrift Plan is a major challenge to Plan Sponsors. Savings plans must provide attractive and diverse investment options, the highest level of administrative services, "top-notch" communications and education services and state-of-the-art technology all at a relatively low cost.

As a fiduciary of the plan, it is important to exercise due diligence in selecting the best investment options and provide your participants with the necessary communication and educational materials to assist them in making informed investment decisions. The search and evaluation process described in this proposal will help fulfill your fiduciary responsibility and provide an audit trail and supporting documentation on the decision making process in selecting a new provider. Clearly the trend has been for plan sponsors to go through a formal search process to ensure their participants have the best investment options and the fees they are paying are in line with the fees and services which are currently offered by the leading providers in the defined contribution industry. We believe our experience as independent consultants, our knowledge of the marketplace and our expertise in conducting similar assignments makes us well suited to such work.

## NET COST SAVINGS

Our involvement in the vendor selection process results in savings which are attributable to our negotiating strength and ability to introduce long-term administrative efficiencies. **As a result, our fees are often recovered many times over by the savings we have brought through our involvement.** In addition, the “match” between an organization and vendor, after a formal selection process, adds immeasurable value to the future quality of the relationship.

## THE VALUE PROPOSITION

In summary, we believe utilizing our consulting services would enhance a vendor search project because we offer:

- Substantial practical experience in the areas of plan design, investment and recordkeeping vendor selection;
- An independent, unbiased and experienced analysis of the services available in the defined contribution industry;
  - » Expertise in writing vendor specifications, Requests for Proposals and finding the appropriate vendors in the market;
  - » Assistance in contract negotiations and the development of performance and quality guarantees; and
  - » Maintain a dedicated team that specializes in assisting plan sponsors of defined contribution plans in selecting, evaluating, and implementing deferred compensation programs.

The following is a description of the various phases we employ to conduct a full service search and plan implementation project.

### PHASE I. Preliminary Work

Our goal, for this phase of the project, is to determine the exact needs of the Thrift Plan regarding its overall provision of retirement benefits and identification of key issues surrounding the administration and asset management preferences.

The following is a list of services we will provide:

- Meet with your organization to discuss plan provisions, administrative concerns, processing requirements and programming issues. This detailed information is necessary background for inclusion in request for proposal;
- Determine goals and objectives, development of a timeline of scheduled events and assign responsibilities. Goals and objectives can be tailored to reflect the kinds of issues we discussed at our meeting;
  - » Determine initial contribution cash flows and estimated participation levels to establish vendor pricing assumptions;
  - » Review current fixed income/stable value fund's exit provision and determine impact of MVA adjustments if applicable;
  - » Determine the number and type of investment options to be offered; and

- » Identify the vendors to be included in the selection process.

## **PHASE II. Development of Custom Request for Proposal**

- Develop a comprehensive formal Request for Proposal based on the needs of the City of Rockville to support a full service turnkey administrative environment, whereby all core services i.e., plan documents, SPD, compliance, 5500 Reports, custodial trustee and recordkeeping are all provided by a top notch provider;
- Request for Proposal would include a summary of the significant plan provisions, retirement plan objectives, member demographics, investment fund assets, related cash flow projections, eligibility and any other unique plan features ;
- Define the expected investment strategy and all related transition issues associated with the current stable value product;
- Mail RFP to selected vendors; and
- Segal Advisors will be responsible for answering all provider questions regarding the proposal process.

## **PHASE III. Evaluation of Vendors**

- Establish evaluation criteria and response rating system to assist in analyzing vendors services and capabilities;
- We will provide an analysis of vendor responses, related services and capabilities. Segal Advisors will meet with you to present results of the analysis and participate in the vendors interviews; and
- We will provide an analysis of the investment offerings which meet the program's future investment strategy.

The analysis of potential investment options will focus on:

- The variety of investment choices;
- Return analysis, particularly consistency;
- The degree of risk (*i.e.*, return volatility) associated with each option;
- Longevity of the Portfolio Manager;
- Investment expenses;
- Fund characteristics; and
- Full disclosure on all plan expenses and revenue sharing arrangements.

## **PHASE IV. Selection of Finalist**

Once our analysis has been presented to your organization, we will assist in the final selection process. Our services in this process would include:

- Contact finalists and coordinate presentation dates/schedules;
  - » Assist in the selection of the final investment options;

- » Attend finalists presentations; and
- » Participate in vendor site visits (optional).

#### **PHASE V. Contract Negotiations**

Once a vendor has been selected, it is essential that all service contracts and agreements be in accordance with the terms of the proposal. Our services in this process would include:

- Review service contracts, trust agreements, service standards, and final fee negotiations.

#### **Phase VI Optional Services — Implementation/Conversion Project Management**

When the new service provider is retained, Segal Advisors, Inc. will act as primary liaison to ensure a smooth and accurate plan installation, implementation, and enrollment process.

During the implementation period, we will discuss procedures and communications regarding enrollment and plan education. In summary, our role in this process would be to fully monitor the implementation process.

Specifically, our optional services in the area of implementation/conversion would include:

- » Reviewing each aspect of the operational procedures required in connection with processing all related plan level activity to support the plan;
- » Identifying the roles of all responsible parties,( *i.e.*, the Plan Sponsor, Recordkeeper, Investment Manager and Custodial Trustees);
- » Coordinating the payroll process for submitting and collecting employee contributions to the new recordkeeping system;
- » Coordinating weekly conference calls with the new service provider and City of Rockville;
- » Work with the selected provider to develop a detailed project schedule identifying all required tasks with corresponding due dates for completion;
- » Monitoring the schedule throughout the course of the implementation and make appropriate recommendations as needed;
- » Developing a methodology to support the transition of new enrollments their contribution and fund selections to accommodate the timing of participant elections and voice response availability; and
- » Review and evaluate the communication and educational programs.

Our role in this process is to become an extension of your organization working along with you and the Plan's new service provider to ensure a sound and successful plan implementation. The procedures we employ in this process will establish a well-designed administrative environment to ensure the new service provider is fully accountable for their role in the overall ongoing administration of the plan.

**FEES**

Our professional fees to conduct the work described in this letter, assuming our analysis will review up to four full service organizations, is as follows:

	Professional Fees
<b>PHASE I: Preliminary Work</b>	
<b>PHASE II: Development of Request for Proposal</b>	
<b>PHASE III: Evaluation of Vendors</b>	
<ul style="list-style-type: none"> <li>▪ Develop vendor comparison matrix and selection criteria</li> <li>▪ Evaluate up to four proposals for both administrative and investment management services</li> <li>▪ Fee to evaluate additional vendors in excess of four: <b>per vendor \$8,500.</b></li> </ul>	
<b>PHASE IV: Selection of Finalist</b>	
<ul style="list-style-type: none"> <li>▪ Interview, negotiate and participate in finalists presentations</li> <li>▪ Vendor site visits (Optional)</li> </ul>	Time & Expenses
<b>PHASE V: Contract Negotiations</b>	
<ul style="list-style-type: none"> <li>▪ Review service contracts, service standards and final fee negotiations</li> </ul>	
<b>TOTAL VENDOR SEARCH SERVICES</b>	<b>\$40,000</b>
<b>Optional Service: Implementation/Conversion Project Management</b>	<b>\$10,000</b>

**COMPENSATION PHILOSOPHY**

As an independent consulting firm, we have no affiliation with brokerage organizations or investment management firms. We receive no brokerage commissions from, and we do not sell services to, investment management firms. All our revenues are generated by our consulting services to client funds. We believe this philosophy avoids any possible conflict of interest.

In keeping with our philosophy of having no affiliation with brokerage organizations or investment management firms, Segal Advisors, Inc. has no "soft dollar" arrangement, but is compensated solely on a "hard dollar" basis.

Our consulting services are designed to provide concrete evidence to assist you as Plan Sponsors in the due diligence process to ensure all of the required services, (*i.e.*, investment management, recordkeeping/administration communication/education) are properly established and maintained so as to ensure and deliver to your participants a successful and well perceived program.

We would also like to point out that our consulting services are designed to provide concrete evidence to the plan sponsor as to their fiduciary responsibilities. Segal Advisors acknowledges it is a fiduciary within the meaning of Section 3(21) of ERISA to the extent it renders advice to the Plan.

In addition, please note, we work with our client from the initial planning stage through implementation, which normally takes up to six months. During this time, we are fully available to assist your organization on all aspects of the transition including the coordination of the communication and enrollment process.

This proposal outlines our proven process for conducting a full search and evaluation project and should serve as the basis for our initial discussion for determining your specific needs.

In the meantime, upon review of this letter, if you should have any questions or need additional information, please feel free to contact me at (212) 251-5219.

Sincerely,

George Kiriakos

Approved on behalf of the City of Rockville by:

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Signature and Title

\_\_\_\_\_  
Date

Agreed to on behalf of The Segal Company by:

\_\_\_\_\_  
Signature and Title

\_\_\_\_\_  
Date

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