

**Delaware State Treasury (“DST” or “Treasury”) Investment Consulting Services Request
for Proposal (“RFP”)**

Questions and Answers (“FAQs”)

Question 1. Please further explain the term “fiduciary capacity”. Will the investment consultant be executing trades on behalf of the State? Will the investment consultant (“Consultant”) be responsible for daily monitoring of proceeds, cash, interest etc?

DST Answer: The fiduciary capacity role relates to the special relationship of trust, confidence, and responsibility between the Consultant and the Treasury. All reports and recommendations will be for the sole benefit of the Treasury and the People of the State of Delaware. Consultant will not be executing trades or responsible for the daily monitoring of proceed, cash or interest.

Question 2: Can you please provide the legal names of the 5 asset managers?

DST Answer: Wilmington Trust Company, Bank of New York Mellon Cash Investment Strategies, Schroder Investment Management (North America, Inc.), Wells Capital Management and J.P. Morgan Asset Management.

Question 3: Will the Consultant be allowed to interview existing asset managers in an effort to understand how they mitigate, report and evaluate certain investment risks?

DST Answer: Yes

Question 4: How will the Consultant be provided the information from the asset managers?

DST Answer: Information will be available from current custodian, Bank of New York Mellon, and respective investment managers.

Question 5: Will the Consultant be given access to asset manager’s books and records related to the State’s investments?

DST Answer: Yes, the Consultant will be provided reasonable access to certain books and records to the State’s investment portfolio.

Question 6: Will the Treasury accept a range of fees? A “high end” and “low end” range of fees based upon fixed hourly rates and estimated hours at these rates.

DST Answer: The Treasury prefers flat fixed fees.

Question 7: Please clarify if the \$1.8 billion portfolio covered by this RFP is restricted to Liquidity Accounts and Reserve Cash (Intermediate) Account as shown on page 4 of Cash Management Policy Board (“CMPB”) Statement of Objectives and Guidelines for the Investment of State of Delaware Funds (the “Guidelines”), or if it also includes Endowment Accounts and Authority Operating, Bond and Debt Service Reserve Fund Accounts.

DST Answer: The \$1.8 billion portfolio includes two (2) endowment accounts totaling approximately \$131 million. Both are managed as Reserve Cash (Intermediate) accounts.

Question 8: Is the Treasury investment portfolio subject to any state banking laws that are not stated in the Guidelines?

DST Answer: No

Question 9: Does the Treasury currently retain a Consultant or is the investment portfolio managed in house?

DST Answer: Currently, the Treasury does not retain a Consultant. The State’s investment portfolio is managed by the investment managers and Treasury personnel.

Question 10: Who is the current custodian of the investment portfolio?

DST Answer: Bank of New York Mellon Asset Servicing

Question 11: Do you have an estimated date to notify finalists? Is there a tentative date for oral presentations before the Proposal Evaluation Team? When do you expect to have a consultant in place?

DST Answer: The Treasury will not commit to any specific dates, but it is the goal of the Treasury to engage a Consultant as soon as possible in compliance with applicable law.

Question 12: Can you provide more detail regarding the investment managers, their tenure, or the current asset allocation?

DST Answer: Investment manager legal names are provided in the response to Query #2. The Treasury will not release tenure information. The current asset allocation is provided on the last page of this document.

Question 13: What are funds used to fulfill state operational expenses? How often are withdrawals made? Additional detail on the use of these funds would be helpful.

DST Answer: The funds in the liquidity portfolios are used to meet our daily cash operational needs of the State. In general, withdrawals number three (3) – five (5) per

month. Generally, between the months of July to February, the Treasury requires funds from the liquidity accounts. During the remainder of the year, the Treasury seeks to replenish the portfolios. For any given month, we have major known expenses, which include biweekly payroll commitments.

Question 14: Approximately how many meetings per year would Consultant be expected to attend? Is there a set schedule for these meetings?

DST Answer: The Treasury anticipates a minimum of six (6) meetings per year – at least four (4) would be quarterly performance reviews with Treasury.

Question 15: Can you reference specific bond strategies being followed by the current investment managers?

DST Answer: All portfolios are actively managed. Currently, Schroder's manages three Intermediate accounts (accounting for approximately 47% of total portfolio). The other four managers each manage one liquidity account (refer to I (B) of CMPB Guidelines).

Question 16: Could you provide any completed performance studies of the funds' existing managers that have been produced?

DST Answer: No studies are available.

Question 17: Can you give us some indication of the level of manager risk you are looking for? Would the Consultant's scope of work include individual security analysis or would that duty fall directly to your money managers as is typical?

DST Answer: We expect the selected Consultant to assist the Treasury in determining acceptable risks, depending on the type and purpose of the account. Individual security analysis would be in the purview of the State's investment managers (though our Consultant may have a limited role in such duties as part of the analysis of the asset and risk allocation in the State's investment portfolio).

State of Delaware Investments

(as of 01/31/12)

| <u>Asset Type</u> | <u># of scurites held</u> | <u>Market Value</u> | <u>% of total</u> |
|---|---------------------------|----------------------------|-------------------|
| ABS - CAR LOANS | 37 | 26,585,358.71 | 1.45% |
| ABS - CREDIT CARDS | 13 | 20,754,869.02 | 1.13% |
| ABS - EQUIPMENT | 3 | 1,916,630.41 | 0.10% |
| AGENCY FOR INTL DEVELOPMENT BACKED DEBT | 3 | 2,706,961.58 | 0.15% |
| BANKING & FINANCE | 76 | 156,192,883.75 | 8.51% |
| CANADIAN GOVERNMENT BONDS | 7 | 12,408,807.60 | 0.68% |
| CASH | 7 | (356,983.25) | -0.02% |
| CERTIFICATES OF DEPOSIT | 15 | 37,007,154.48 | 2.02% |
| CERTIFICATES OF DEPOSIT - DOMESTIC | 19 | 40,550,000.00 | 2.21% |
| COMMERCIAL PAPER - DISCOUNT | 21 | 81,209,118.78 | 4.42% |
| COMMERCIAL PAPER - INTEREST BEARING | 1 | 3,999,861.90 | 0.22% |
| FDIC GUARANTEED BANK & FINANCE | 7 | 24,766,472.55 | 1.35% |
| FHLMC MULTICLASS | 4 | 41,054,849.29 | 2.24% |
| FHLMC POOLS | 15 | 33,400,360.02 | 1.82% |
| FNMA POOLS | 10 | 191,910.69 | 0.01% |
| FNMA REMIC | 1 | 18,169,822.46 | 0.99% |
| FOOD BEVERAGE & TOBACCO | 2 | 1,717,329.75 | 0.09% |
| HEALTH CARE | 6 | 33,037,092.27 | 1.80% |
| HOUSEHOLD PRODUCTS | 3 | 15,842,777.80 | 0.86% |
| INSURANCE | 12 | 20,893,834.98 | 1.14% |
| MUNI - AIRPORT | 2 | 1,154,100.00 | 0.06% |
| MUNI - DEVELOPMENT | 1 | 2,179,680.00 | 0.12% |
| MUNI - GENERAL OBLIGATION | 1 | 453,596.00 | 0.02% |
| MUNI - MULTI FAMILY HOUSING | 1 | 99,869.70 | 0.01% |
| MUNI - SINGLE FAMILY HOUSING | 4 | 955,646.05 | 0.05% |
| NEWS/MEDIA | 3 | 10,201,100.00 | 0.56% |
| NON-US CERTIFICATES OF DEPOSIT | 4 | 26,132,292.56 | 1.42% |
| NON-US CORPORATE BONDS | 18 | 56,465,165.58 | 3.08% |
| NON-US CORPORATE PRIVATE PLACEMENTS | 11 | 15,637,129.70 | 0.85% |
| NON-US GOVERNMENT BONDS | 10 | 11,221,185.20 | 0.61% |
| OIL & GAS | 4 | 1,926,461.60 | 0.10% |
| PRIVATE PLACEMENTS - ABS | 20 | 22,146,507.12 | 1.21% |
| PRIVATE PLACEMENTS - MORE THAN 1YR | 81 | 205,535,956.55 | 11.20% |
| RETAIL | 3 | 9,780,796.00 | 0.53% |
| SHORT TERM INVESTMENT FUNDS (US REGULATED) | 32 | 42,766,513.61 | 2.33% |
| TAXABLE MUNICIPALS | 15 | 8,184,166.15 | 0.45% |
| TRANSPORTATION | 2 | 726,966.99 | 0.04% |
| TREASURY BILLS - LESS THAN 1YR | 13 | 101,994,663.65 | 5.56% |
| US AGENCIES | 51 | 331,628,257.78 | 18.07% |
| US GOVERNMENTS | 49 | 403,074,841.40 | 21.96% |
| WHOLE LOAN - CMO - COLLATERALIZED MTG OBLIG | 3 | 11,423,302.62 | 0.62% |
| Grand Total | 590 | \$ 1,835,737,311.05 | 100.00% |