

TREASURY INVESTMENT MANAGEMENT SERVICES

Contract Number TRE17102-INVSTMNGRSRVCS

Pre-bid Questions and Answers

*OST received numerous questions from Vendors in connection with the above-referenced RFP. Questions have been compiled in this document and arranged by subject matter. OST has provided answers based on its interpretation of the questions and available information. OST reserves the right to amend or supplement its responses. Vendor questions are in **BLACK font**. OST's answers appear in **RED font**. Capitalized terms appearing but not defined in this document have the meanings ascribed to such terms in the RFP.*

Investment Architecture

1. During the draw down cycles (liquidity managers), are disbursements typically requested on a daily, monthly, or quarterly basis? Or as needed?

Under the New Investment Architecture, the State will seek access to funds held by liquidity managers on an as-needed basis. During a liquidity manager's "draw down and replacement cycle" (as described in the RFP), the State may draw on funds held by the liquidity manager as frequently as several times per month. Typically, liquidity managers will be given at least four to five business days' advance notice of each draw. In addition, OST will work with liquidity managers using historical information on draw and replenishment cycles to develop forecasts of liquidity needs (e.g., rolling 12-month estimates).

2. How much notice are investment (liquidity) managers provided that cash flows will occur so they can structure the portfolio to meet the upcoming flow?

See answer to Question 1, above.

3. Will a money market mutual fund (liquidity account) be considered as a vehicle, if the flows are daily?

Under the Guidelines, liquidity managers may invest, without percentage limits, in open-end money market mutual funds whose guidelines are consistent with the Board's Guidelines. OST notes that exclusive or excessive usage of money market mutual funds by liquidity managers may result in sub-optimal yields.

4. Is the Board open to a global fixed income strategy?

This type of strategy is not permissible under the current Guidelines. Both OST and the Board are always open to considering the merits of new investment strategies. The implementation of investment strategies outside of current Guidelines would require

Board approval and may necessitate the promulgation of new or amended Guidelines under the State's Administrative Procedures Act, 29 Del. C., Ch. 101, Subch. II.

5. What are the current, annualized fees charged—in basis point terms—by managers for the liquidity and reserve portfolios? In non-basis point terms?

OST desires Vendors to submit competitively priced bids based on the New Investment Architecture and current market rates.

6. What are the target durations for each of the liquidity and reserve tiers? For example, if the 7-10 year mandate has a 10 year max maturity, then what is the targeted duration?

There are no expressed or implied duration targets for liquidity or reserve managers.

7. Is there a difference in expected alpha target for the liquidity versus reserve accounts? Is there an acceptable tracking error range for both the liquidity and reserve portfolios?

There are no expressed or implied alpha targets or tracking error ranges for liquidity or reserve managers.

8. Will OST consider a strategy proposal utilizing simulated performance?

Yes. OST will consider a proposal based on simulated performance, provided that the methodology is reasonable and has been approved by the Vendor's compliance officer.

Investment Securities/Holdings

9. With reference to the Guidelines:
- a. "Corporate debt: 50% total, 25% max non-domestic from only approved countries"
– Only banks? No industrials or utilities?

Investments in banks, industrials and other sectors are permitted, subject to the credit quality limitations and other restrictions set forth in the Guidelines (sections 6.3.4 and 7.3.4).

- b. "Certificates of Deposit (CD): 50% max" – All of this under 13 or 18 month FRNs?

CD maturities are subject to the limitations and restrictions set forth in the Guidelines. See sections 6.3.3 and 7.3.3 of the Guidelines.

- c. "Mortgage-backed securities (MBS): 10% max" – What metric do we use for average life? Bloomberg? If the MBS drifts over the max average life, are managers forced to sell?

Bloomberg is an acceptable vendor to measure average life. Managers must provide a remediation plan within two business days if average life exceeds the maximum permitted under the Guidelines. While forced selling is not encouraged, the Board believes that managers should follow the Guidelines (section 10.4) strictly and seek remediation only in or during extreme circumstances or for minor, transitory violations.

- d. “Asset-backed securities (ABS): 10% max” – Even for the longer reserve fund? Confirm a two-year average life maximum for reserve fund.

Under the Guidelines, the average life for ABS in the liquidity and reserve funds is two years, unless such securities have a periodic reset of coupon or interest rate, in which case average life may not exceed three years (section 7.3.10).

- e. Section 6.3.4.2 “Percentage Limit: 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer” – How would we determine domestic/non-domestic? Is it country of risk, domicile, etc.? How are the industry classifications managed? Barclays? BAML? Bloomberg?

The corporation’s domicile determines domestic or non-domestic status. Industry classifications currently are based upon the underlying reference index, BofA ML. Other well-known vendor classifications (e.g., Bloomberg) may be acceptable.

- f. Section 6.3.10 “Asset-Backed Securities” – How would asset-backed commercial paper (ABCP) be classified? It looks like there’s mention of it in 6.3.4, which is the corporate debt instruments section. Would we use that definition?

ABCP is governed by the Guidelines in sections 6.3.10 (liquidity) and 7.3.10 (reserve).

- g. Section 7.3.2 “50% max U.S. Government Agency Obligations” – Please confirm if agency multi-family bonds are permissible and if they would be allowed to the mortgage allocation or the U.S. Government Agency Obligation allocation.

Provided that the security conforms to all restrictions and limitations of the Guidelines, multi-family bonds are permissible under Mortgage-Backed Securities (sections 6.3.9 and 7.3.9).

- h. Are small business administration bonds permissible? If so, can you please specify the limitation per the Guidelines?

No, under the current Guidelines SBA bonds are not permitted.

10. Generalized Ratings – Reading the language it appears to state that while two ratings are required for each security, if there are three then we’d look at the lowest two? Please clarify.

All securities must be rated by at least two Nationally Recognized Statistical Rating Organizations (NRSRO’s). If a security is rated by more than two NRSRO’s, then the ratings from all of the NRSRO’s must comply with the restrictions in the Guidelines.

11. Section 7.0 states that bonds should be denominated in USD for the purposes of the reserve accounts. Are any forms of international securities denominated in other currencies permissible within the reserve account (such as with the endowment accounts?)

No. Only USD-denominated bonds are permissible under the Guidelines for liquidity and reserve accounts.

12. The liquidity investment Guidelines have a maximum maturity of two years and the benchmark duration of approximately 0.75 years. Per the “Prospective Management and Strategic Insights,” the liquidity portfolio duration is between zero to three years. Should this be between 0 and 2 years, based on the current benchmark and permitted investments?

The duration range under the New Investment Architecture will be zero to three years for the liquidity accounts.

13. Is it possible to provide a snapshot of the current portfolio sector allocation, credit quality, duration, spread duration, and fee schedule?

The requested information is not being made available at this time.

14. Under Section 7.3.9.2, is there any flexibility around the limit on MBS?

No. Managers will need to comply with existing percentage limits for MBS. Both OST and the Board are open to recommendations from managers as to how to improve portfolio performance within the Board’s overall mandate.

Professional Services Agreement (PSA)

15. (Page 53, Section 2.7) Please clarify if OST would retain unilateral right to determine if an error or omission occurred in the account.

Section 2.7 of the PSA memorializes OST’s common law and contractual rights to set aside payments or portions of payments owed to the successful Vendors based on and to the extent of any amounts owed to OST/State, whether under the PSA or otherwise. Unless a consensus is reached by the parties as to the amount of OST/State’s rights of

offset or recoupment, those rights may need to be asserted (as defenses or counterclaims) and liquidated in litigation.

16. (Page 57, Section 9.1) Is the indemnity provision negotiable or is it expected that the Vendor must accept the provision as written?

OST would prefer that Vendors agree to the terms of the PSA as posted. Nonetheless, as noted on page 16 of the RFP, OST may be willing to consider changes to the form PSA if exceptions are lodged and preserved in accordance with the RFP.

17. (Page 57, Section 9.1) Is the State amendable to granting a waiver of consequential damages?

See response to Question 15, above.

18. Can OST provide a Microsoft Word version of Appendix F: Professional Services Agreement for mark-up and return of Exhibits 1 and 2?

Yes. A Word version of the PSA is available upon request. Vendors desiring a Word version of the PSA may request same from Susan Steward at susan.steward@state.de.us.

19. Section 2.8 requires the delivery of invoices to be sent to a postal address, can Vendors submit these using email?

OST will accept either US mail or email delivery of invoices.

20. Section 4.5 states “Vendor shall appoint a senior employee who will manage the performance of Services and act as a single point of contact to OST and the Board.” Is it acceptable if a Vendor assigns one point of contact but OST and/or the Board may receive information (reporting, etc.) from various groups within the Vendor’s organization?

Successful Vendors each should identify a high-level employee to act as the lead relationship manager. OST anticipates that successful Vendors will rely on other employees, among other things, to interact with OST in the ordinary course, attend Board meetings and assist with periodic reports or presentations to OST and/or the Board.

21. Section 14.2 states “Services specified by this Agreement shall not be subcontracted by Vendor without the prior written approval of OST.” Does this restrict the Vendor’s ability to freely delegate and subcontract with their own affiliates?

Yes. Successful Vendors are not free to delegate obligations under the PSA and must obtain OST’s prior written approval prior to subcontracting with any other entity.

22. Exhibit 5 – What is the full scope of the word “data?” Does that mean contact information, email communications, historical holdings? If this agreement is terminated, much of this information will not be deleted because of Vendor’s record retention policy.

Exhibit 5 to the RFP contains a copy of the “Cloud Computing & Offsite Hosting Standards” promulgated by the Delaware Department of Technology and Information (“DTI”). Vendors with questions about or concerns with the policy should lodge and preserve exceptions in accordance with the RFP. Any proposed changes to the policy will require approval by OST and DTI.

Questionnaire

23. In reference to Question #9 under the Firm Background section (page 20), if a Vendor is a global asset manager with a broad range of strategies, is it acceptable for them to identify only those managed in the U.S.?

Vendors should disclose all assets under management.

Scope of Services

24. Appendix A: “Reports and Requirements for Investment Manager (Monthly) – Since we offer online access to all reporting, would online access fill the requirement for monthly reporting or does the State require that all reporting be sent via email?”

OST acknowledges the utility of online access but prefers that monthly reports be sent via email.

Submission Details

25. (Requirements) “Vendor must have continuous performance of at least 10 years” – If a vendor’s fixed income platform has continuous performance of at least 10 years, but intends to submit a customized strategy (with less than 10 years) will this still suffice?

Yes, provided that the Vendor has continuously managed fixed income portfolios for 10 years.

26. (Requirements) “A minimum of \$5 billion in assets under management as of June 30, 2017” – If a Vendor’s fixed income strategy platform has \$5 billion in assets under management, but the potential customized strategy (which would be managed by the same team) does not, can a Vendor still participate?

Yes, provided that the Vendor’s total fixed income assets under management as of June 30, 2017 exceeds \$5 billion.

27. Do the hard copy proposals submitted need to be in a 3-ring binder?

All hard copy proposals should be bound for submission. However, the method of binding is the Vendor's choice. OST will not accept unbound submissions.

28. Regarding electronic copies of the proposal, would it be acceptable to submit an encrypted/password-protected flash drive? A password will be provided within the package.

Yes. OST will accept password or encrypted drives so long as a password is provided within the submission package.

29. (Attachment 2 – Rates of Return Spreadsheet) Regarding Column P (Yield), does this refer to current yield or yield to maturity/worst?

For Attachment 2 – “Rates of Return Spreadsheet”, Vendors should provide the recommended strategy's current yield in Column P for “Yield.”