



OFFICE OF THE
ARIZONA STATE TREASURER

KIMBERLY YEE
TREASURER



RFP 21-08 Investment Management Services Bidder Questions & Answers

1. Could you please kindly confirm the preferred benchmark for the two pools of capital noted in the RFP?

50% 1-month T-Bill/50% Bloomberg Barclays 1-3 US Agg

2. General Requirement

2. This contract may also include contingency planning for the State of Arizona Treasurer's Office. The contractor may be asked to perform as a back-up to internal managers in the event of an emergency. The contractor may be required to take additional management responsibilities if an emergency should occur and would need to demonstrate the capabilities of managing all the internal funds shown in Exhibit G.

With regard to General Requirement (2), could you please provide detail as to what situations would constitute an emergency and require the contractor to perform back-up management responsibilities?

Emergencies can include but are not limited to a natural or man-made disaster that prevents the Treasurer's office from being able to perform daily functions, sudden staff departures.

- Have there been any periods over the last 10 years where the Treasurer's Office has utilized the contractor for back-up investment management responsibilities and if so, for what length of time?

No. However, when the state was required to invest in tax-exempt Non-AMT municipal securities, we decided to grant that to the external manager as it was an asset class we are not naturally investing in.

- How much advanced notice should be expected to assume the back-up responsibilities?

As little as 24 hours. We currently have emergency directives in place with custodial bank (State Street) for back-up manager to have the ability to manage assets upon notice from ASTO.



OFFICE OF THE
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- Could you confirm the trading, operational and data systems that would need to be utilized to facilitate back-up management?

Custodial bank provides fund accounting, transfer agency and performance reporting services as well as securities lending and normal custodial services. Back up manager's trading systems must tie in with custodial bank. Back up manager also provides own performance reporting metrics to ASTO as back up to custodial bank services and is expected to have a Bloomberg terminal connection.

- In the event of an emergency that requires back-up management services, would the contractor be compensated for the services or would it be considered part of the contract?

Bidders should provide pricing for managing the assets under the contract and pricing for managing full provider as back up.

3. Section 6. Special Terms and Conditions, 7. Commercial Crime Policy or Blanket Fidelity Bond states the coverage amount of \$35 million. This coverage amount far exceeds the coverage generally maintained by firms that meet the minimum requirement of \$10 billion in current AUM. Is this coverage required for the Pool 3 and/or Pool 10 mandates? If yes, is this coverage amount also applicable to MWBE investment management firms?

Yes

4. Section 6. Special Terms and Conditions, 8. Technology Errors & Omissions Insurance states the coverage amount of \$2 million each claim/annual aggregate. The document states that this insurance is related to coverage on items such as copyright infringement, infringement of trade dress, domain name, etc. Is this policy/coverage required for the investment management services scope covered in this mandate? Would the investment manager(s) that are selected for this mandate be required to carry this coverage/policy?

Yes to both questions.

5. Section 6. Special Terms and Conditions, SSAE-18 states the successful bidder must provide its most recent current SSAE-18 report. Our firm is an SEC-registered investment management firm that does not provide custody nor participate in the selection of a client's custodian; that handles all investment management services in-house; and that is not a publicly traded entity. As such, our firm is not required to obtain an SSAE-18 and historically has not obtained such report. As an SEC-registered investment advisory firm, we complete



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an Annual Compliance Review as required under Rule 206(4)-7 of the Investment Advisers Act which includes the completion of a risk matrix. If selected for this mandate, would the ASTO accept an Annual Compliance Review summary in lieu of an SSAE-18 report?

Yes

6. Section 8. Exhibits and Attachments, Exhibits A: Scope of Services, General Requirements Item 2. states "The contractor may be required to take additional management responsibilities if an emergency should occur and would need to demonstrate the capabilities of managing all the internal funds shown in Exhibit G." Can the ASTO provide further clarification and details on whether fixed income managers would be tasked in an emergency to manage internal funds for other asset classes? Would the fixed income manager for Pool 3 and/or Pool 10 have the option of coordinating with other ASTO external managers for Pools with other asset classes?

This allocation from Pool 3 and Pool 10 are the only external managers hired by ASTO, the rest of the pools are managed internally. In an emergency, the successful bidder is expected to be able to manage all the assets under management at the ASTO. ASTO currently manages both equity and fixed income securities, including individual stocks and bonds, money markets, mutual funds and more. Please review the Investment Policy Statement for a full list of permitted securities. Our current holdings are also available on our website. Please read the full IPS here:

<https://tinyurl.com/f57vruwd>

7. Regarding the Investment Policy Statement, Section VI., Pool 3 – STATE AGENCIES II (Diversified Asset Mix), are agency-issued MBS that carry the GSE-only guarantee of principal and interest an allowable investment? If yes, is the maturity max 5 years?

As stated in the IPS: "The final maturity, or if applicable average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years from the settlement date of the purchase." Please read the full IPS here:

<https://tinyurl.com/f57vruwd>

8. Section 8. Exhibits and Attachments, Exhibits A: Scope of Services, General Requirements Item 6. states "Any corporate credit exposure for the fixed income funds is limited to a 5% concentration limit per corporate name per pool assets." Regarding the Investment Policy Statement, Section VI., Pool 3 – STATE AGENCIES II (Diversified Asset Mix), are investment



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grade corporate credit notes/bonds, in addition to commercial paper, an allowable investment for Pool 3? If yes, is the maturity max 5 years?

Yes, please see answer to question 7 above.

9. Regarding the Investment Policy Statement, Section VI., Pool 3 – STATE AGENCIES II (Diversified Asset Mix), are investment grade floating rate corporate notes an allowable investment? If yes, is the maturity max 5 years?

Yes, please see answer to Question 7 above.

10. Regarding the Investment Policy Statement, Section VI., Pool 10 – YIELD RESTRICTED AND TAX-EXEMPT NON-AMT POOL, can the AMTO provide further clarification and details on whether the yield restricted limitation is related to any prohibitions with the investment of bond proceeds?

The purpose of the pool is to meet IRS guidelines dealing with the refinance of tax-exempt bonds related to the issuance of debt for operating purposes in 2010. Please note, there are active budget discussions at the Arizona Legislature to pre-pay as much as \$270 million of these bonds which could lower the amount required to be invested in external pool 10 by a like amount.

11. Can the ASTO provide current holdings reports for Pool 3 and Pool 10?

Holdings reports can be found here:
<https://www.aztreasury.gov/market-value-reports>

12. Is the ASTO seeking separately managed account vehicles for Pool 3 and Pool 10?

Successful bidders will be managing the assets in external accounts Pool 3 and 10.

13. Can the ASTO provide the current investment manager(s) for Pool 3 and Pool 10?

US Bancorp Asset Management

14. Can the ASTO provide the fees/fee schedule paid to the current investment manager(s) for Pool 3 and Pool 10?

4 basis points.



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15. As it relates to pool #10, are there any gain/loss restrictions to consider when selling a security?

There are no restrictions on realizing gains or losses outside of the yield restrictions laid out under IRS rules.

16. For the submission – given the current COVID environment will an electronic submission be acceptable, or will the hardcopy and USB delivery be required?

Yes

17. Section 2 (Offer and Acceptance) states that “bidders shall not discriminate against any employee or applicant for employment in violation of Federal Executive Order 11246, State Executive Order 99.4, or A.R.S. S. 41-1461 through 1465.” More so, “Contract Administration and Operation” states that “contractor shall comply with . . . applicable state and Federal employment laws, rules, and regulations.”

Please confirm whether EO 11246 is applicable to this proposed mandate, including whether bidder is required to comply with the reporting requirements of Federal EO 11246.

Yes

18. From a product standpoint, what is the maximum duration for both Pools 3 and 10. Although we have the current portfolios duration, it would be helpful to know the max for each of the pools, as it did not seem to be disclosed in the IPS.

Pool 3 is considered a short-term bond fund and targets a duration no longer than 18 months. Pool 10 internal now has a max duration of 5 years. External Pool 10 will be eliminated once refinanced bonds are matured or re-paid.

19. Is the intent to hire one manager for both pools (IG Fixed Income and the Municipal Tax-Free non-AMT pool)?

Yes, but open to selecting different managers.

20. In answering the RFP questions including philosophy, process, team, portfolio characteristics and performance etc, ought we provide separate sections for the Investment Grade Fixed Income portfolio and the Municipal Tax-Free non-AMT pool?



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If any of the requested characteristics are different yes.

21. As the Municipal Tax-Free non-AMT pool has a finite life, would the objective be to structure a laddered portfolio or a max maturity type portfolio rather than to manage a portfolio against a market-based benchmark?

No. Due to changes in legislation, a structured laddered portfolio is always subject to early termination.