

WEST VIRGINIA STATE TREASURER'S OFFICE



REQUEST FOR PROPOSALS NO. BTI180000002

for

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS  
SHORT DURATION FIXED INCOME INVESTMENT MANAGER

ADDENDUM NO. 1

RESPONSE TO VENDOR QUESTIONS

Allianz Global Investors Questions

*Mandatory Qualification Requirements*

3.3.4 Have a minimum of 10-years GIPS-compliant track record for a short duration fixed income strategy with a benchmark of the ICE BofAML 1-3 Year US Corporate & Government (or other similar benchmark of like credit quality and duration);

Question: AllianzGI's Advanced Fixed Income team currently manages an Enhanced Short Term strategy, which was incepted in January 1998 and is benched to a money market USD LIBOR asset weighted custom benchmark with US and non-US country allocations. Our Advanced Fixed Income team also manages a Global Government Bonds strategy which was incepted in December 2007 and is benched to the ICE BofAML Global Government Bonds G7 1-3 Years ex Italy USD hedged. Both strategies are GIPS-compliant and the team is fully capable of running a US only strategy, will this meet the above minimum qualification?

**Response: No. The WVSTB is interested in US-centric short duration fixed income strategies.**

3.3.5 Have a minimum level of assets under management in short duration fixed income securities such that the WVSTB does not exceed 5% of the Vendor's assets under management; and

Question: Is this specific to the strategy we are proposing or will overall firm managed short duration fixed income securities suffice?

**Response:** The original RFP Mandatory Qualifications, section 3.3.5 (Page 7), was incorrect. It should have stated “Have a minimum level of assets under management in short duration fixed income securities such that the **WVSTB does not exceed 10% of the Vendor’s assets under management.**” **Attachment 12, Outside Service Providers Policy, is correct. Overall firm managed short duration fixed income securities (1-5 years) will qualify to meet the 10% requirement.**

**Blackrock**

**Question:** Attachment 2, #24: Can you clarify what would constitute “sensitive or critical information” to cause an employee background check?

**Response:** Sensitive or critical information may include, but is not limited to, PII (Personally Identifiable Information), information that is critical to the operation of the State, STO and/or BTI, information that warrants enhanced protection and is safeguarded and information that is protected against unwarranted disclosure. The WVDPS Director may be contacted by phone at 304.558.9911.

**Question:** Should Attachments 6 and 14 be completed during contracting and negotiation or should they be completed as part of the Technical Proposal?

**Response:** Attachment 6 should be completed as part of the Technical Proposal. Attachment 14 is to be completed prior to contract award.

**Question:** Regarding the Cost Proposal, will the vendor be responsible for paying for the costs incurred for WV BTI to travel to vendor offices?

**Response:** Yes, if the BTI and Vendor agree to perform the oral presentation during a site visit at the Vendor’s fixed income headquarters.

**BMO Global Asset Management:**

**Question:** Is there any clarification on the size of the individual pools that make up the \$774.1 million?

**Response:** No individual pools make up the WV Short Term Bond Pool. The pool contains approximately 59 accounts representing WV state agencies and local government investments. Please refer to Attachment 9 (January 2018 Financials), Page 35 (Participant Net Asset Values – WV Short Term Bond Pool).

**Fidelity Investments**

Question: Can you please reconcile the requirement that all securities must have a short term rating of A-1 with the ability to purchase 15% BBB given many BBB will have A-2 short term rating?

Response: **Securities purchased with an original maturity of one year or less must be rated A-1 or better.**

Question: Can you clarify how many copies of the proposal in total you would like to receive and is there an electronic delivery address or just hard copy?

Response: **In addition to the original Technical Proposal, firms must complete the original Technical Proposal Form (Attachment 4 Completed and Signed), and nine (9) courtesy (hard) copies of the Technical Proposal. In total, ten (10) Technical Proposal Forms should be received. There is no electronic delivery address.**

**The Cost Proposal Form (completed and signed) must be provided in a separate sealed envelope, and an exact copy of the proposal response on diskette, CD Rom, DVD or USB flash drive in Adobe PDF or Microsoft Word. Submissions in Adobe PDF should be searchable, rather than just scanned images.**

**Payden & Rygel Investment Management:**

Question: Can you please confirm the due date for our responses? We're assuming that they must arrive by May 9<sup>th</sup> by 1:00pm ET, but I just want to be sure!

RFP Release Date:	March 21, 2018
Deadline for Vendor Questions:	April 4, 2018 10:00 a.m. ET
Release of Addendum: (STO Response to Vendor Questions)	April 11, 2018
Proposals <b>Opening</b> Date and Time:	May 9, 2018 1:00 p.m. ET
Oral Presentations and/or Site Visits:	TBD
Projected Effective Date of Contract:	September 1, 2018

Response: **Proposals are due no later than 1:00 p.m. ET on Wednesday, May 9, 2018. A proposal received at 1:01 p.m. ET on May 9 would be considered late and disqualified. Vendors submitting proposals by Federal Express, UPS, etc., should be aware that occasionally the carriers experience delays due to weather conditions (heavy fog) and plan for sufficient lead time for the proposals to arrive on time.**

Investment guideline related questions:

Question: Does this requirement include mortgage backed securities with a guarantee from Government National Mortgage Association (GNMA)?

**Response:** Yes, those securities that are guaranteed as to payment of interest and principal of the United States of America.

“Minimum 15% of the Pool must be in U.S. Treasury Obligations or obligations guaranteed as to payment of interest and principal by the United States of America (inclusive of U.S. Treasury collateralized Repurchase Agreements and Money Market Funds that invest substantially all of their assets in securities issued by the U.S. Treasury and in related repurchase agreements).”

Question: No maximum per asset-backed or mortgage-backed issuer is listed. Is the 5% corporate issuer limit intended to also apply to these sectors?

**Response:** Yes

Question: It appears corporate debt only requires one investment grade rating, looking to the highest. Can you confirm a security rated BBB-/Ba1/BB+ would be acceptable?

**Response:** Yes, although securities downgraded to below investment grade quality may be subject to liquidation as noted below.

Question: Do you interpret AAA-rated Collateralized Loan Obligations (CLOs) as qualifying Asset Backed Securities?

**Response:** No, CLO's are not a permissible security.

Question: The guidance on downgrades appears to refer to short term ratings, given the First Tier/Second Tier reference. Does this apply to long term ratings as well?

**Response:** Securities purchased in compliance with the Policy that become non-compliant may be retained upon recommendation of the Investment Manager and the Investment Consultant. This applies to both short term and long term ratings.

Question: Do we need to also submit a signed Agreement Addendum (Attachment 6)?

**Response:** Yes

Question: If not the custodian, who is striking the NAVs for the funds? Are they just struck monthly or more often?

**Response:** The BTI staff strikes the NAV on the WVSTB pool on a monthly basis. BNY Mellon is the custodian bank and is utilized for pricing data.

Question: Are vendor staff needed to help STO staff present the funds to its prospective investors?

**Response:** Yes, periodically we would like the Investment Manager to meet with prospective investors. This does not require the Vendor to have an office in WV.

Question: Would an investment manager be subject to the requirements of the background checks discussed in the General Terms and Conditions, due to having investment knowledge? Or would the public nature of the information exclude it from being deemed “sensitive or critical”?

**Response: An investment manager may be subject to the requirements of the background checks. The WVDPS Director may be contacted by phone at 304.558.9911.**

Question: Are the WVSTB pool assets currently charged a fixed or tiered fee?

**Response: A fixed fee of 9 basis points.**

Question: Why is the STO issuing this RFP?

**Response: The current investment manager’s contract expires on September 30, 2018.**

Question: Are there “book value” or other accounting considerations to be aware of, or is the WVSTB pool only focused on total return?

**Response: Total Return.**

### **PFM**

Question: In reviewing RFP No. BT1180000002, we have a question concerning the Minimum Qualifications. In Attachment 12, the Minimum Qualifications detailed under the 4th bullet of the Investment Managers Section conflict with 3.3.5 of the Mandatory Qualification Requirements under Section 3.3 (Page 7) of the RFP. The RFP says “the minimum level of assets under management in short duration fixed Income securities such that the WVSTB does not exceed 5% of the vendor’s assets under management” and Attachment 12 says 10%. Please clarify which percentage is the correct percentage.

**Response: The original RFP Mandatory Qualifications, section 3.3.5 (Page 7), was incorrect. It should have stated “Have a minimum level of assets under management in short duration fixed income securities such that the WVSTB does not exceed 10% of the Vendor’s assets under management.” Attachment 12, Outside Service Providers Policy, is correct. Overall firm managed short duration fixed income securities (1-5 years) will qualify to meet the 10% requirement.**

### **PIMCO**

Question: Within the RFP, the benchmark has been listed as the “ICE BofAML 1-3 Year US Corporate & Government Index +10 bps”, whereas in the Investment Policy Statement, the benchmark is listed as “BofAML US Corporate and Government 1-3 Years. A-rated and above Index +10 bps”. Could we receive confirmation as to which of these benchmarks the selected managers performance will be measured against?

**Response:** The current investment policy utilizes the ICE BofAML US Corporate and Government 1-3 Years, A-rated and Above Index + 10bps. For purposes of the RFP, managers will be evaluated against the ICE BofAML 1-3 Year US Corporate and Government Index + 10bps (Effective October 1, 2018).

Question: Do the guidelines permit derivatives?

**Response:** No.

Question: Are you able to provide the incumbent manager's historical quarterly durations as compared to the benchmark?

**Response:** Yes. See Exhibit A.

**UBS Asset Management (Americas) Inc.**

RFP Section 3.3.4: Have a minimum of 10-years GIPS-compliant track record for a short duration fixed income strategy with a benchmark of the ICE BofAML 1-3 Year US Corporate & Government (or other similar benchmark of like credit quality and duration);

Question: We believe our Short Duration Composite would be the most applicable for Mandatory Requirement 3.3.4 given it's track record (inception 12/31/94) and that the duration of the benchmark for this Composite (BAML 1-3yr US Treasury) is most closely aligned to the duration of the BAML 1-3yr US Corporate & Government. Furthermore, over the Composite's history, the credit quality of the securities held within the underlying portfolios is most closely aligned the permitted credit quality of securities in the BAML 1-3yr US Corporate & Government index. Will this composite be acceptable to satisfy 3.3.4?

**Response:** Yes

IMA (Attachment 13) Section 5.8: Notification of Tax Liabilities – The Vendor shall promptly notify BTI if, at any time, BTI is required to pay taxes to any government or to file any returns or other tax documents with respect to income earned on the Assets under the Agreement. The Vendor shall be liable for all penalties and interest due to any failure by the Vendor to notify BTI of such tax matters.

Question: As an asset manager, we generally do not provide tax advice to clients, but would be able to pass along any notifications that we may receive regarding the securities in a BTI account. Is this sufficient to comply with this section of the IMA?

**Response:** As stated in Section 5.8, the Vendor is to notify BTI, at any time, of the requirement to pay taxes and file returns or other tax documents. As a result, Vendor is not limited to only passing along notifications. Please note Attachment 13 is a draft Agreement to be executed by the successful Vendor and the Board. Any requested revisions to the Agreement should be

**included in its Miscellaneous Section.**

IMA (Attachment 13) Section 10(h): The Vendor shall assist BTI and the Custodian as necessary to prepare required reporting or regulatory forms and filings regarding the Assets; to take action necessary to recover any taxes improperly paid or withheld; and shall use diligence to identify and evaluate legal claims relating to any of the Assets, including but not limited to class action claims (such claims shall hereinafter be referred to as "Claims"), advise BTI of any Claims potentially involving more than U.S \$1 million and pursue, or assist BTI in pursuing, any Claims as directed by BTI. If such assistance requires addition of personnel, sustainable reprogramming or addition of data processing capabilities, it shall be at BTI's expense.

**Question:** As an asset manager, we generally do not provide legal advice to clients, but we interpret Section 10(h) of the IMA to mean that we would provide information regarding securities purchased on behalf of a BTI account, where BTI or the Custodian have identified that these securities are subject to a legal action. Is this an acceptable or correct interpretation?

**Response:** **Section 10(h) specifically states that it requires the Vendor to use diligence to identify and evaluate legal claims and advise and assist the BTI as directed. As stated, it requires more of the Vendor than providing information where BTI or the Custodian have identified securities subject to a legal action. Please note Attachment 13 is a draft Agreement to be executed by the successful Vendor and the Board. Any requested revisions to the Agreement should be included in its Miscellaneous Section.**

**WVSTB - Duration History by Quarter - Inception to February 28, 2018****Exhibit A**

<b>Month End</b>	<b>Portfolio Duration</b>	<b>Benchmark Duration</b>
2/28/2018	1.071	1.880
12/31/2017	1.142	1.865
9/30/2017	1.142	1.885
6/30/2017	1.016	1.900
3/31/2017	1.216	1.896
12/31/2016	1.252	1.885
9/30/2016	1.285	1.896
6/30/2016	1.123	1.896
3/31/2016	1.145	1.885
12/31/2015	1.211	1.870
9/30/2015	1.036	1.874
6/30/2015	1.156	1.897
3/31/2015	1.101	1.886
12/31/2014	1.038	1.896
9/30/2014	1.129	1.921
6/30/2014	1.115	1.930
3/31/2014	1.036	1.929
12/31/2013	0.959	1.892
9/30/2013	0.868	1.896
6/30/2013	0.981	1.904
3/31/2013	0.874	1.871
12/31/2012	0.984	1.860
9/30/2012	0.647	1.875
6/30/2012	0.493	1.879
3/31/2012	0.438	1.883
12/31/2011	0.430	1.862
9/30/2011	0.414	1.859
6/30/2011	0.378	1.863
3/31/2011	0.573	1.852
12/31/2010	0.677	1.829
9/30/2010	1.545	1.846
6/30/2010	1.452	1.867
3/31/2010	1.622	1.882
12/31/2009	1.567	1.865
9/30/2009	1.584	1.874
6/30/2009	1.833	1.883
3/31/2009 <sup>(1)</sup>	1.896	1.980
12/31/2008 <sup>(1)</sup>	1.589	1.889
10/31/2008 <sup>(1), (2)</sup>	1.874	1.861

<sup>(1)</sup> - Denotes weighted average maturity instead of effective duration for both portfolio and benchmark

<sup>(2)</sup> - Current investment manager assumed mandate effective 10/1/2008.