

QUESTIONS ON ASTO RFP 11-04

1. Will 100% of the pools 5 & 7 assets be awarded to each manager selected or would the assets be divided base on an allocation methodology?

No, we are not looking at awarding 100% of any pools assets to any manager. For all the pools we are looking at awarding a portion of each pools assets to manage. Size of an allocation and number of investment managers selected will depend on the evaluation of the RFPs received. However, if for some reason our internal managers could not manage any pool, then for a period of time, an external manager could be awarded 100% of any pools assets until such time internal management could manage the assets again.

2. If the pools 5 & 7 are allocated to multiple managers, how will the allocation of redemption and purchases be handled? What is the notification time frame of these allocations?

Each allocation should be viewed as a stable allocation at the outset of contract award.

3. We are assuming that JP Morgan will perform all pricing and record keeping services for shareholders in the managed pools is that correct?

Yes. Existing Transfer Agency functions will be maintained by the current custodian, JP Morgan. This RFP is only for investment management of assets.

4. Will any additional services be needed other than Asset Management and Distribution?

No.

5. Is daily NAV reporting a requirement for pools 5 & 7?

Daily NAV reporting is the responsibility of JP Morgan. Securities purchased by external managers are held by the custodian, which provides the daily NAV reporting.

6. Is the S&P rating on Pool 5 a Money Market rating or a Bond rating? Does Pool 5 require a AAA rating?

The S & P rating is a AAAf/S1+ LGIP rating. The fund does not require a rating, but management's goal is to maintain the rating on the fund.

7. Pool 7 – LGIP – Gov; The pool description calls for investments to be limited to “full faith and credit” of the U.S. of America. Does the full faith and credit constraint provide a look-through feature to allow for repurchase agreements collateralized by securities that are direct obligations of the U.S. Government?

Yes.

8. Can you clarify in Pool 7 if the NAV falls below \$.995 will the State reimburse the difference from \$1.00 or the difference from \$.995 to the shortfall? Would the State of AZ be willing to provide monetary support to maintain a positive return in the event the Pool's return net of fees results in a negative yield?

ASTO Investment Policy states for Pools 5 and 7: The portfolio manager shall strive to maintain a Net Asset Value (NAV) of \$1.00 (\$.995 - 1.005) for the pool. Unrealized market value gains/losses exceeding this threshold will be realized against income in that same month to the

extent that they exceed the allowable range. The State Treasurer has discretion on charging management fees up to six basis points. To date, net yields on Pool 7 have remained positive, even after management fees.

9. Given the recent changes to rule 2a-7 do you still allow a 90 WAM or have your Investment Guidelines not been updated to reflect the new liquidity and duration requirements?

The State of Arizona is not subject to rule 2a-7.

10. If we are awarded the contract what is the expectation for the implementation time frame from the date of acceptance?

As soon as practical.

11. To the extent that the Treasurer's office may engage firm(s) to assist in the management of the various pools within the Treasurer's Office, will the investment manager(s) be acting within a discretionary capacity while working within the confines of the State's Investment Policy and other pre-described guidelines or strategies?

Yes

12. For each of the 8 pools that the State is requesting investment proposals, what are the investment management fees that are charged to each of the underlying participants on an annual basis?

The current fee is six basis points.

13. Please confirm that the concentration of credit limit for any one position is 2.5%?

Yes, external managers are limited to a 2.5% concentration per name of funds allocated.

14. On page 25, the table that asks for data on Public Accounts Lost and Gained, are you looking for data for the last 5 or 10 years? It appears that there are some gaps in the years? (2002 - 2007)

Last 10 years. The table should reflect 2001 to 2011

15. Why is ASTO now looking to outsource part of the investment management?

We believe it is prudent going forward to have a mix of internal and external management as part of contingency planning and best practices.

16. Scope of Services – Are the Quarterly Investment Plans allocation plans for pool balancing for asset allocation between pools or are they specific to investment directions within the pools?

Specific for each pool.

17. Scope of Services—Can we clarify the ASTO approved purchase list? How does it differ from an external managers own list that are within the confines of the individual pool investment policies? How would the ASTO approved list process be managed?

The ASTO approved list consists of names that have been reviewed and approved by the ASTO Investment Risk Management Committee for purchase by portfolio managers. Credits on the list are reviewed every six months and credits are added, deleted or suspended on a monthly basis as

research occurs. External Managers selected will be given the list of names and the ASTO is willing to review proposed credits to be added to the list.

18. What flexibility might the ASTO have on reviewing certain benchmarks that reflect better the restrictions of some of the pools?

The ASTO is open to input from external managers on appropriate benchmarks for its existing pools.

19. Will there be an investment management agreement entered into between ASTO and the offeror that is separate from the RFP?

Please see Items 1.2; 1.3; and 5.1 under Uniform Terms and Conditions.

20. Can the Special Terms and Conditions and the Uniform Terms and Conditions be negotiated? If the terms can be negotiated, what is the process for proposing modifications?

Please see Item C. 4 Exceptions to Terms and Conditions under Uniform Instructions to Offerors.

21. Section 5 of Special Terms and Conditions specifies SAS-70. Our understanding is the industry has replaced the SAS-70 with the SOC report. This is what we have to provide.

The SAS-70 or successor to it should be provided.

22. On page 24, Exhibit B: Offeror Questionnaire asks: "Please describe any restrictions you may have on client-directed transactions". Does this mean that the ASTO is or is not seeking fully discretionary active asset management services?

The ASTO is seeking active asset management services within the context of the scope of services.

23. On page 26, Exhibit B: Offeror Questionnaire asks: "What is the distribution of your portfolios managed in this investment approach according to the following capitalization ranges (in U.S. dollars) for the last five years?" Does "capitalization" refer to assets under management?

Yes.

24. Our firm may not reach all of the thresholds under the eligibility criteria. Can we still submit and RFP?

The State of Arizona encourages all interested parties to respond to an RFP if that party feels it meets the criteria. Once we receive all proposals, they will be reviewed as part of our evaluation process. Whether we choose to waive any criteria in the RFP is at our discretion during the review process.

Additional Questions Answered on January 12, 2012

25. Are you able to provide a copy of the "ASTO approved purchase list" as related to corporate bonds? Would ASTO allow an investment manager to only rely on their own proprietary research and internal approved list if the ASTO were to become comfortable with the investment manager's credit research process?

The list contains well over 150 short-term and long-term credits. Selected managers will have access to the list. The ASTO will work with managers on adding additional credits to the list.

26. What do the Quarterly Investment Plans entail? If we are agreeing to be an extension of your internal investment management team, how much discretion do we have when it comes to managing the portfolio?

The quarterly investment plans provide a general guidance on how the portfolio manager intends to manager assets for the upcoming quarter and cover items such as duration, credit quality, and asset mix. There is discretion for managers. Below is an example:

“The April 1st FDIC rule change caused a major disruption in the cash investing markets driving Repo and overnight rates down. I will be investing the most liquid portions of the pools longer in very liquid products to try to bypass the disruption. Should cash be required I will liquidate those products. I anticipate that this problem is short term and should be resolved prior to quarter end. However, I think that Repo rates may not recover completely. I anticipate the new Repo levels will be Fed Funds minus 5 to 10.”

27. Does the product proposed need to be a separately managed account or can it be a commingled vehicle?

Proposals can be either SMA's or a commingled vehicle.

28. We would like to respond, but may not have a product for each one of the 8 pools. Is it okay to choose to propose a product for some pools, but not all? And do we need to specify which pool(s) we are proposing the product for?

Responses do not have to bid on all investment pools. However, proposals should specify which pools they are proposing a product for.

29. Do we need to submit an RFP for each product or can we submit one RFP covering firm-level data once and then product-level detail for each pool we wish to be considered for?

Please, only one RFP for firm level data only and then product level data for each pool.

30. May we use our standard Investment Management Agreement for purposes of the initially suggested contract? Does the RFP # 11-04 serve as the actual contract or are there additional documents?

*The RFP serves as the contract; however, please see Items 1.2; 1.3; and 5.1 under Uniform Terms and Conditions. **Please see Item C. 4 Exceptions to Terms and Conditions under Uniform Instructions to Offerors as it relates to changes or amendments.***

31. Would a Foreign Central Bank suffice for purposes of this requirement and/or would the management of co-mingled assets in 2a-7 Money Market Mutual Funds for the accounts of State, County or City Treasurer's office meet this requirement?

Yes to both questions.

32. Solicitation # 11-04, page 31, 10. Would 2a-7 Money Market Mutual Funds meet the above stated criteria under this provision of Permitted Investment Instruments?

Yes

33. Solicitation # 11-04, page 26, Fees and Account Minimums, #1: Is a performance-based fee structure the only fee schedule that will be considered for this proposal?

Proposals shall list all fees associated with the proposals.

34. With reference to Section IV on Permitted Investments. On #2, it says "...purchased form securities dealers that make markets in those securities listed in paragraph 1." Which 'paragraph 1' does it refer to?

The immediate preceding paragraph.

35. Section C.12 – “Solicitation Order of Precedence” (p.9) versus Section 2.3, “Contract Order of Precedence” (p. 14). Please clarify and identify the order of precedence.

Page 9 is the order of precedence.

36. Section 7.7 – “Scrutinized Business Operations” (p.19) Will a list of restricted securities operating in Sudan or Iran be provided by the Arizona State Treasurers’ Office?

No.

37. Section C.4.i – “Invitations for Offers” (p. 8) and Section C.4.ii – “Request for Proposals” (p. 8) Please clarify both items. Also, if we provide exceptions, would we be disqualified?

If under item i) an exception is disqualification, under item ii) and exception may disqualify a proposal.

38. Can you clarify how the investment pools will be managed? Is the ASTO looking for multiple managers across all pools or will each firm separately manage a set number of pools?

Depending on the responses, the ASTO may select one or more managers to select a portion of all investment pools, or some pools.