

**OFFICE OF THE STATE TREASURER
STATE OF WASHINGTON**



**REQUEST FOR PROPOSALS
FOR
INVESTMENT ADVISORY SERVICES**

JUNE 1, 2012

Letter of Intent: Due by 3:00 p.m. Pacific Time (PT), Friday, June 8, 2012

Proposals: Due by 3:00 p.m. PT, Friday, June 29, 2012

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Office of the State Treasurer
State of Washington

Request for Proposal
For
Investment Advisory Services

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I. INTRODUCTION

The State of Washington (State) acting through the Office of the State Treasurer (OST), seeks proposals from qualified firms to serve as an investment advisor to OST in connection with the State's Treasury and Local Government Investment Pool (LGIP) investment programs. Advisory services will include transaction specific, ongoing, and special project advisory services.

This Request for Proposal (RFP) solicits proposals to provide investment advisory services for a period of two (2) years, with the possibility of extensions granted at the discretion of OST for a total period of up to six (6) years.

II. BACKGROUND

2.1 Current Investment Program

2.1.1 General. As of April 30, 2012, the investment portfolios managed by the Office of the State Treasurer had a combined market value of approximately \$12.6 billion.

The Treasurer is a constitutional officer of the state of Washington. The Treasurer and his staff comprise the Office of the State Treasurer. The Treasurer manages the investments for three accounts: a Local Government Investment Pool, the State Treasury/Trust cash management account, and a U.S. Department of Energy trust account on behalf of the Washington State Department of Labor and Industries. The investment advisory services being procured pursuant to this RFP are limited to the Local Government Investment Pool and the State Treasury/Trust cash management account, both of which are further described below.

Pursuant to statute and OST policies, the OST manages all investments internally and invests in the following: U.S. Government and Agency securities, repurchase agreements (repos), reverse repurchase agreements, and certificates of deposit. Certificates of deposit are done only with qualified, in-state public depositories and are non-negotiable.

2.1.2 LGIP Portfolio. The LGIP operates comparable to a Rule 2a-7 money market fund. The over 400 participating local governments in the state are allowed 100% liquidity on a daily basis. Same-day transactions of any size may be conducted any time prior to 9 a.m. Pacific Time, and transactions of \$1 million or less may be done any time prior to 10 a.m. Pacific Time. The maximum average maturity and maximum final maturity are 90 and 397 days, respectively. The investment holdings of the LGIP are generally repos, floating rate notes, U.S. Treasury Bills and Notes, Agency discount notes and coupons, and bank deposit products. The benchmarks utilized for the LGIP are the net and gross yields as reported by iMoneyNet of Government and Agency money market funds. The net yield is utilized for external comparisons while the gross yield is used internally to assess portfolio manager performance.

2.1.3 Treasury/Trust Portfolio. State statutes allow a pooled investment of all balances in the Treasury/Trust accounts in the custody of the Treasurer. The Treasury/Trust portfolio is separated into sub-portfolios, each managed by a different portfolio manager. Earnings are calculated and distributed on an accrued basis. While the earnings of all sub-portfolios are pooled and distributed monthly to the Treasury/Trust accounts, performance of the sub-portfolios is monitored individually, with each having a different performance benchmark. Objectives are set by portfolio as follows:

A. *Liquidity portfolio.* The objective of this portfolio is to meet the liquidity needs of all treasury/trust accounts. All daily cash requirements are to be met by assets in this portfolio. Additionally, the liquidity portfolio serves as a short-term investment fund (STIF) for any cash holdings of the core portfolios. Property tax payments in May/June and November/December provide for positive cash flows during those months, followed by months of negative cash flows. Consequently, the liquidity portfolio has significant volatility in balances, going from near zero to amounts well in excess of \$1 billion. Investment holdings of this portfolio are generally repos and discount notes. This portfolio utilizes the same performance benchmarks as the LGIP.

B. *Core portfolio.* Cash not anticipated to be needed to meet cashflow requirements for the foreseeable future is invested in the core portfolio. In the past, the core portfolio was comprised of three sub-portfolios, each managed by a different manager, but today, due to declining balances, there is effectively one core portfolio. While the size of the core portfolio may change over time, due to long-term cash forecasts, immediate liquidity is not a requirement for this portfolio. The maximum maturity for this portfolio is ten years. The duration of this portfolio is approximately two years. The current size of the core portfolio is \$2.0 billion. Investment holdings of this portfolio are U.S. Government and Agency securities. The benchmarks of the core portfolio are the total return and accrued yield of the Merrill 1-3 Government and Agency Index and the accrued yield of a ladder of two- and five-year U.S. Treasuries.

2.2 OST Investment Initiatives

2.2.1 LGIP Extended Asset Fund. As an additional investment option to the LGIP, OST has been developing an intermediate investment fund—the Extended Asset Fund (EAF). This fund will perform on a total return basis, and be priced using a variable net asset value. OST has taken steps to set up the initial foundation for the fund.

2.2.2 LGIP Daily Factor. The LGIP currently offers participants a projected monthly rate for earnings and then distributes actual earnings at month end, i.e., the projected monthly rate is only informational. OST is exploring the possibility of migrating to operating with a daily factor.

2.2.3 Development of a Dual LGIP Prospectus. OST has drafted a prospectus for both the LGIP and EAF, and is currently looking at additional steps to take in order to make it more complete.

III. RFP ADMINISTRATION

3.1 RFP Coordinator. Upon receipt of this RFP and until OST has awarded a contract to the proposer whose proposal is most advantageous to OST, the firms may not approach any OST employee, director, or consultant other than the RFP Coordinator to whom inquiries, proposals, and other correspondence concerning this proposal shall be addressed.

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 Office of the State Treasurer
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 Olympia, WA 98504
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 E-Mail: doug.extine@tre.wa.gov

Communication regarding this RFP with any other OST personnel will be considered unofficial and non-binding to OST. Firms are to rely only on written statements issued by the RFP Coordinator. Communication directed to parties other than by the RFP Coordinator may result in disqualification of the firm.

EXCEPT for the submittal of the formal proposal to this RFP and protest, if any, communications with the RFP Coordinator may be by fax and/or e-mail. You may not send your proposals or protests by fax or e-mail communication.

3.2 Schedule. All firms shall adhere to the schedule of activities set forth below. This schedule is subject to revision by amendment to this RFP. Late proposals will not be accepted, nor will time extensions be granted.

Activity	Due Date
Official Publication of RFP	June 1, 2012
Letter of Intent to Propose Due	June 8, 2012
Final Date For Written Questions	June 12, 2012
Answers to Written Questions	June 19, 2012
Proposals Due	June 29, 2012
Interviews (at OST's discretion)	July 10-11, 2012
Best and Final Offer	July 13, 2012
Notice of Award	July 17, 2012
Execute Contract	July 20, 2012

3.3 Letter of Intent to Propose. Firms planning to submit a proposal should mail or fax a written Letter of Intent that includes the following information, to the RFP Coordinator. The Letter must be received by 3:00 p.m., Pacific Time (PT) Friday, June 8, 2012.

- Firm name
- Contact name of person responsible for the proposal
- Telephone number
- Fax number
- E-mail address

Only firms submitting a Letter of Intent to Propose will be eligible to directly receive amendments or other information regarding this RFP.

3.4 RFP Inquiries

3.4.1 It is incumbent upon each firm to carefully examine these requirements, terms, and conditions. Should any firm find discrepancies, omissions, or ambiguities in this RFP, the firm shall request, prior to the Final Date for Written Questions, as set forth in the Schedule in **Section 3.2** above, in writing, an interpretation from OST's RFP Coordinator.

3.4.2 OST must receive all written inquiries and correspondence concerning the RFP by 3:00 p.m. PT, Tuesday, June 12, 2012. Firms may submit the questions by U.S. Postal Service, fax, or e-mail. OST will not respond to questions submitted after this date and time. OST will provide written answers, and if necessary, written amendments to the RFP by Tuesday, June 19, 2012.

3.4.3 Any changes or clarifications to the information provided herein shall be reduced to writing and will be posted on the OST website at <http://www.tre.wa.gov/> and furnished to each firm that has timely submitting a Letter of Intent to Propose.

3.5 RFP Amendments. In the event that it becomes necessary to revise any part of this RFP, OST will issue an amendment to the RFP to all firms who have submitted a Letter of Intent to Propose by the date and time specified in the above schedule and post such amendment on its website at <http://www.tre.wa.gov/>. If amendments are in response to questions that are submitted, the questions, along with OST's responses, will be included in the amendment. It is the responsibility of each interested firm to check the website for this information. Firms are instructed to disregard any oral representations they may receive. Proposal evaluation will be based on the material contained in the RFP and any amendments to the RFP that have been issued. If a conflict exists between amendments, or between an amendment and the RFP, the document issued last shall take precedence.

3.6 Waivers. OST reserves the right to waive specific terms and conditions contained in this RFP. It shall be understood by all firms that their proposal is predicated upon acceptance of all terms and conditions contained in this RFP, unless the firm has obtained such a waiver in writing from OST prior to submission of the proposal. Such a waiver, if granted, will be granted to all firms. OST will issue a notice of the waiver to all firms who have submitted a Letter of Intent to Propose by the date and time specified in the schedule. In addition, any such waiver shall be post on OST's website at <http://www.tre.wa.gov/>.

3.7 No Obligation to Contract. This RFP does not obligate the State or OST to contract for the services specified herein. OST also reserves the right to cancel or reissue the RFP in whole or in part, for any reason, at the sole discretion of the OST at any time prior to the execution of a contract.

3.8 Proposal Acceptance Period. Proposals providing less than one hundred eighty (180) calendar days for acceptance by OST from the due date set for receipt of proposals will be considered non-responsive and will be rejected.

3.9 Contract. OST expects that it will enter into a written contract with the successful proposer that formalizes the contracting terms and the services to be provided. Any agreement with OST is contingent upon a written contract being entered into and accepted by OST. OST provides the form of the contract and administers the contract on behalf of the State. The firm, by submission of a response to this RFP, accepts these contractual requirements.

IV. SCOPE OF SERVICES

4.1 Transactional Specific Services. OST requires a combination of on-going, transaction-specific, and special projects services from its investment advisor. The investment advisor may provide services including but not limited to:

4.1.1 Development of LGIP Daily Factor. OST is exploring the possibility of migrating from a monthly earnings rate to the use of a daily earnings factor. The investment advisor will provide guidance and oversight as OST develops and implements operation of the daily factor.

4.1.2 Extended Asset Fund for LGIP Participants. OST is currently developing an Extended Asset Fund (EAF) as an additional investment option for LGIP participants. The EAF will operate similar to a bond fund, e.g., a variable net asset value. The investment policy of the EAF will be similar to the one currently being used by the Treasury Core. The investment advisor for OST will provide guidance and oversight to OST with the setup of the fund in addition to providing guidance in the operation of the fund. The Services pertaining to the EAF shall include, but are not limited to, assisting OST with the following:

- A. Development of a dual prospectus document for the LGIP and EAF.
- B. Updating and adding language to the OST investment policy.
- C. Assistance in a successful launch of the EAF.

4.1.3 Education of LGIP Participants. The investment advisor shall assist OST in educating the LGIP participants on both the use and functionality of the daily factor as well as the implementation and operation of the Extended Asset Fund.

4.2 Additional Services. From time to time, OST may require Special Project services from its investment advisor. The investment advisor will be required to perform other tasks consistent with the purpose of the Contract as may be specified by OST including any other service necessary, customary, or incidental to investment of public operating funds. All services will be performed only upon the written request of OST and as detailed in a written amendment to the Contract. Work plans and budgets for any studies, extraordinary services, or special analyses must be approved in advance by OST.

V. PROPOSAL REQUIREMENTS

In order to be considered for selection, firms must submit a complete response to this RFP. Proposals shall include the following information by section:

5.1 Cover Letter. Provide a cover letter, signed and dated by an individual legally authorized to bind the firm contractually. Indicate that the signer is authorized to commit the firm to the terms presented and include the title or position the signatory holds. The letter must also:

5.1.1 Identify the submitting organization.

5.1.2 Identify the name and title of the person authorized by the organization to contractually obligate the organization.

5.1.3 Identify the name title and telephone number of the person authorized to negotiate the contract on behalf of the organization.

5.1.4 Identify the names, titles, and telephone numbers of persons to be contacted for clarification.

5.1.5 Explicitly indicate acceptance of the Scope of Services as stated in **Section IV**.

5.1.5 Include a statement from the organization agreeing to provide all the services in the Summary Scope of Work and to adhere to all requirements, specifications, terms, and contract provisions set forth in this RFP.

5.1.6 Acknowledge receipt of any and all amendments to this RFP.

5.2 Organization

5.2.1 Describe the organization, date founded, and ownership of your firm and any subsidiaries and affiliates relevant to your proposal together with the primary area of expertise and specific service(s) each entity will provide.

5.2.2 Fully disclose and describe any relationships with financial institutions or securities brokerage firms that may affect, or appear to affect, investment decisions or advice provided to OST or its portion of managed funds.

5.2.3 Describe the primary sources of revenue for your firm.

5.2.4 Describe any SEC or regulatory censure or litigation within the past three (3) years involving institutional business your firm conducts with governmental investors and/or regulatory censure or litigation involving any individuals in your firm in the past three (3) years.

5.2.5 List your five (5) largest, or most representative, governmental clients that are operating funds relationships for whom you provide services. Additionally, please compile a list of governmental clients in the State of Washington that have received assistance from your firm with their internally managed portfolio(s).

5.3 Personnel

5.3.1 Identify the specific individuals who will be assigned to this engagement noting names and contact information. Describe the role of each individual, provide resumes for each (in an Exhibit), and identify the individual who will be the primary day-to-day contact for the State.

5.3.2 Identify the number of investment professionals (e.g., portfolio managers, analysts, research analysts, investment advisors) employed by your firm by classification.

5.3.3 Has there been any turnover of professional staff in the firm in the last 12 months? Have there been any additions or reductions?

5.4 Investment Management Consulting

5.4.1 Please describe any experience individual(s) to be assigned to this account have had in analyzing the cash flow and investment parameters associated with the operations of a state treasury, included the assessment of appropriate levels of risk to achieve market returns.

5.4.2 Please provide examples of recommendations made by your firm to clients and briefly describe the results and benefits these treasurers derived as a result of this advice.

5.4.3 What tools or subscriptions would you make available to assist OST staff?

5.4.4 Briefly describe your firm’s understanding of the State’s investment policy and investment practices. Please see the attached OST investment Policies.

5.4.5 Given the scope of services, what is the value that your firm can add to OST through your firm’s advisory services?

5.5 Services Not Performed. Describe any services the firm is unable or unwilling to provide.

5.6 Proposed Fees

5.6.1 General

A. Any pricing offered by a proposer shall be inclusive of sales tax, business and occupation tax, and any other taxes for fees for doing business in the State of Washington that may apply.

B. The evaluation process is designed to award this procurement not necessarily to the firm with the least cost, but rather to the firm whose proposal best meets the requirements of this RFP in OST’s sole judgment.

5.6.2 Investment Advisory Services Fees. State a proposed rate of compensation for your firm’s investment advisory work with OST. Travel and per diem is the responsibility of the proposer and should be considered when preparing the proposed fee. No separate allowances or fees will be paid for travel or per diem for the proposer. The proposed rate of compensation, as required above, should include a specific fee for transaction specific advisory services as described in **Section IV** of this RFP as well as an hourly fee for Special Project Services. Please fully explain the application of any fees as they relate to this proposal. A final fee schedule may be negotiated with the investment advisor prior to the execution of a contract.

5.7 Conflict of Interest. It is the expectation of the State that the award of a contract for investment advisory services and the conduct of business under that contract will comply with the state’s conflict of interest laws. Provide a letter signed by an officer of your firm certifying that no condition exists with respect to the firm or any of its employees which violates the Ethics in Public Service Act, Chapter 42.52 RCW, or any similar statute in relation to the submittal of this proposal.

5.8 Litigation. Provide a brief explanation and status of any material litigation, regulatory authority investigation, contingent liabilities, or other legal proceedings involving the firm or any officer or principal in the past three years.

5.9 Contractual Requirements

Attachment A – Personal Service Contract For Investment Advisory Services contains contracting terms OST requires in the Contract that are not negotiable. Provide a statement indicating the firm has read the Contract and accepts all provisions.

Firms may propose revisions to the Contract for clarification and procedural purposes only. If a conflict exists between the State's required language and language proposed by the firm, the provisions required by the State shall govern. However, the State retains the right to waive any provision, as deemed necessary. Proposals contingent upon revising the Contract will be rejected.

5.10 References. Provide contact names, addresses, and telephone numbers for at least three (3) government entities for which the firm serves as an investment advisor.

5.11 List of Exceptions. Provide an explanation for any exceptions to, or deviations from, the requirements of the RFP. If there are no exceptions, include a statement to that effect.

5.12 Other. Provide any additional pertinent information.

VI. PROPOSAL SUBMISSION

6.1 General. Proposals should only include information essential to meet the requirements of the RFP. The detailed requirements stated in the "Proposal Requirements" section, presented in the same order as listed, are mandatory. Failure to respond to specific requirements may be the basis for elimination from further consideration. Please limit proposal to a reasonable length.

6.2 Withdrawal. Firms may withdraw proposals at any time before the proposal due date by providing written notification to the RFP Coordinator.

6.3 Delivery. One (1) paper copy and one electronic copy (CD-ROM format) of the proposal must be delivered or mailed to the following address. The electronic copy shall be in a CD-ROM format and shall contain the appropriate documents formatted in Microsoft Office 2003 or newer, and Adobe PDF that includes original signatures where applicable. The CD-ROM shall be enclosed in paper CD sleeves or other protective covers and shall be labeled at a minimum: "CD-ROM 1: Washington State Treasurer's Office Investment Advisory Services RFP, (proposer's name)." Proposals must be clearly marked "Proposal-Investment Advisory Services."

Douglas Extine, Deputy Treasurer
Office of the State Treasurer
Legislative Building, Room 230
416 Sid Snyder Avenue SW
Olympia, WA 98504

Firms are solely responsible for ensuring receipt of proposals by the specified date and time and at the specified location.

6.4 Deadline. Proposals must be received by 3:00 p.m. PT, Friday, June 29, 2012. Proposals received after the deadline and faxed submissions will not be accepted.

6.5 Errors in Proposal

6.5.1 Proposers are liable for all errors or omissions contained in their proposals. Proposers will not be allowed to alter proposal documents after the deadline for proposal

submission. OST is not liable for any errors in proposals. OST reserves the right to contact proposers for clarification of proposal contents.

6.5.2 In those cases where it is unclear to what extent a requirement or fee has been addressed, the evaluation team may, at its discretion and acting through the RFP Coordinator, contact a proposer to clarify specific points in the submitted proposal. However, under no circumstances will the responding proposer be allowed to make changes to the proposed items after the deadline stated for receipt of proposals.

OST reserves the right to make corrections or amendments to a response due to errors identified by the State or the firm. This type of amendment will only be allowed for such errors as typing, transposition, or any other obvious error. All changes must be coordinated in writing with, authorized by, and made by the RFP Coordinator. Firms are liable for all errors or omissions contained in their responses.

6.6 Public Records. All proposals, including attachments and other inclusions, become public records subject to the public disclosure law of Washington State upon receipt.

6.7 Incurred Costs. OST will not reimburse firms for any costs associated with preparation or submittal of any proposal or for any travel and/or per diem expenses incurred in any presentations of such proposals.

VII. SELECTION PROCESS

7.1 General. Proposals will be evaluated strictly in accordance with the requirements set forth in this RFP and any written amendments. Evaluators will consider how well a proposal meets all such requirements. Proposals must be clear, complete, and presented in the order specified so evaluators can adequately understand all aspects of the proposal. Firms that submit incomplete proposals may be deemed nonresponsive and eliminated from further consideration.

OST will select the apparent successful proposer based on the proposal that, in its opinion, best meets the RFP requirements and is in the best interest of the State.

7.2 Selection Committee. Proposals will be reviewed and evaluated by a selection committee, established by OST.

7.3 Evaluation Process. The selection committee will evaluate proposals based on their technical merits and cost factors. The selection committee may select finalists for oral interviews. At the sole discretion of the State, such interviews will take place either at the Office of the State Treasurer in Olympia, Washington, or the offices of the finalists.

7.4 Evaluation Criteria. The following criteria, not listed in order of significance, will be used to evaluate proposals:

7.4.1 The qualifications and experience of individuals assigned to this engagement as well as the breadth and depth of the overall team.

7.4.2 OST's assessment of the firm's availability and its ability to successfully deliver services on a timely basis.

7.4.3 OST’s assessment of the firm’s ability to interact effectively with OST and other state agencies, other financial advisors, and other professionals involved in the investment operations.

7.4.4 The quality of performance of previous contracts and services.

7.4.5 Compliance with RFP requirements.

7.4.6 Reasonableness of Costs.

7.4.7 Proposed revisions to the Contract.

Note: Cost will not be the sole determining factor in the selection.

7.5 Additional Requests. The selection committee reserves the right, during this process, to request additional information. Firms will be given at least five (5) business days from notification to provide requested information.

7.6 Rights of State. In addition to any other rights stated in this RFP, OST reserves the right to (i) reject any and all proposals, (ii) waive any minor informalities in a proposal, (iii) schedule interviews, (iv) request clarifications or additional information from any proposer, (v) waive specific terms and conditions contained in this RFP, and (vi) effect any agreement deemed by OST to be in the State’s best interest with one or more firms.

Nothing in this RFP, the proposals, or OST’s acceptance of any proposal in whole or in part shall oblige OST to complete negotiation with the related firm.

7.7 Contract Award

7.7.1 The proposer selected as a result of the proposal evaluation process will be, in the sole judgment of OST, the proposer whose proposal is the most advantageous to OST.

7.7.2 OST will notify the selected proposer of its acceptance of the proposer’s proposal and of OST’s intent to enter into the Contract in substantially the same form as the Contract attached as **Attachment A** to this RFP. If said proposer does not execute the Contract within three weeks of notification, OST may withdraw the award from that proposer and award the Contract to the proposer ranked second in the proposal evaluation process.

7.8 Single Proposal. If OST receives only one proposal to this RFP, OST, at its sole option, may elect to cancel this RFP or select and award the contract to the single proposer.

7.9 Publicity. The apparent successful investment proposer shall not release any notices, press releases, reports, or news or make any statement to the public, press, or other media relating to matters pertinent to the proposal or contract without prior written approval from OST.

7.10 Protest Procedures. In the event a proposer protests this RFP process or the selection of an apparent successful proposer, the proposer shall follow the procedures set forth in the Washington Administrative Code (WAC) 200-300-130 through 140. Protests shall be resolved in accordance with above-referenced WAC.