

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



**REQUEST FOR PROPOSALS
FOR
INVESTMENT ADVISORY SERVICES**

DECEMBER 18, 2009

Letter of Intent: Due by 3:00 P.M. Pacific Time (PT), Friday, January 8, 2010

Proposals: Due by 3:00 P.M. PT, Friday, January 29, 2010

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Office of the State Treasurer
State of Washington

Request for Proposal
For
Investment Advisory Services

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ATTACHMENTS

Attachment A Agreement For Investment Advisory Services
Attachment B Washington State Treasury Portfolio Investment Policy
Attachment C Washington State Local Government Investment Pool Investment
Policy
Attachment D Monthly Performance Report – November 2009
Attachment E Washington State Local Government Investment Pool Holdings as of
November 30, 2009
Attachment F Washington State Treasury Portfolio Holdings as of November 30,
2009

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1. INTRODUCTION

The State of Washington acting through the Office of the State Treasurer, seeks proposals from qualified firms to serve as an investment advisor to the State 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 one (1) year, beginning early 2010, with the possibility of extensions granted at the discretion of OST for a total period of up to six (6) years.

RFP Coordinator: The RFP Coordinator is the sole point of contact for the selection process. All communications about this procurement must be directed to the following person. Communication directed to other parties shall result in elimination from further consideration.

Douglas D. Extine, Deputy Treasurer
Office of the State Treasurer
Legislative Building, Room 230
416 Sid Snyder Avenue SW
Olympia, WA 98504
Telephone: (360) 902-9012
Fax: (360) 902-9044
E-Mail: doug.extine@tre.wa.gov

Letter of Intent: Firms planning to submit a proposal must 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) January 8, 2010.

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

This information allows the State to distribute additional information, if necessary, to potential respondents. Failure to submit the Letter of Intent shall result in elimination from further consideration.

Questions: All questions regarding the RFP must be received in writing by 3:00 P.M. PT, Wednesday, January 13, 2010. OST will provide to all firms that submit a Letter of Intent by the deadline its written responses to each question received. Send inquiries to the RFP Coordinator at the address, email or fax number above.

Schedule:

Release RFP	December 16, 2009
Deadline – Letter of Intent	January 8, 2010
Deadline – Questions	January 13, 2010
Deadline – Proposals	January 29, 2010
Interviews / Conference Calls (if necessary)	February 16-19, 2010
Best and Final Offers	February 26, 2010
Final Selection / Contract Award	March 5, 2010

Note: The State reserves the right to revise the above schedule.

RFP Modification:

The State reserves the right to revise the RFP Schedule or issue addenda to the RFP at any time. The State also reserves the right to cancel or reissue the RFP in whole or in part, for any reason, at the sole discretion of the State at any time prior to the execution of an agreement.

If the RFP is revised, OST will provide an addendum to all firms that submit a Letter of Intent by the deadline. In addition, OST will present amendments on its website (<http://www.tre.wa.gov/>). Respondents are responsible for ensuring they have all addenda issued by OST relating to this RFP.

Agreement:

The State expects that it will enter into an Agreement that formalizes the contracting terms and the services to be provided. The Agreement will be for a period of one (1) year, with an option on the part of the State to renew the Agreement for a total period of up to six (6) years, unless terminated sooner by either party as set forth in the Agreement. The initial contract period will be March 2010 through March 2011.

Any agreement with the State is contingent upon a written agreement being entered into and accepted by OST. OST provides the form of the Agreement and administers the Agreement on behalf of the State. *Attachment A – Agreement for Investment Advisory Services* contains contracting terms the State requires in the Agreement that are not negotiable. The firm, by submission of a response to this RFP, accepts these contractual requirements.

2. BACKGROUND

I. OST Investments

As of November 30, 2009, the investment portfolios managed by the Office of the State Treasurer had a combined market value of approximately \$12.8 billion. Portfolio holdings and historical cash balances may be found for each portfolio in the RFP Attachments.

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: the state Treasury/Trust cash management account, a Local Government Investment Pool, and a U.S. Department of Energy trust account on behalf of the Washington State Department of Labor and Industries.

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. Tri-party repos are not allowable at this time.

Local Government Investment Pool (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, US 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.

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:

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.

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 US 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 2- and 5-year US Treasuries.

US Department of Energy/Washington State Labor and Industries Portfolio – This is a small portfolio of about \$7.5 million that currently contains 7 US Treasury securities. There is generally one purchase per month.

OST Investment Policies - The Treasury/Trust and LGIP investment policies as well as a publication outlining eligible investments for public funds in Washington State are available at www.tre.wa.gov under the “For Local Governments” and “For State Agencies” investment tabs.

3. SCOPE OF SERVICES

TRANSACTION SPECIFIC

The State 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:

1. Monthly, via conference call

Review the portfolios' holdings and previous month cashflows and performance and provide observations/recommendations to OST portfolio managers. Provide advice on general financial market conditions and the outlook for bonds, new issues, new investment products, market trends, and investor preferences. The review may also include recommendations for performance enhancements, rebalancing, policy compliance, and insight on significant economic influences.

2. Quarterly, at OST offices

Attend quarterly meetings with the State Treasurer and the LGIP Advisory Committee. When scheduling allows we will also include the normal monthly review in the slate of meetings, in lieu of the conference call.

3. Periodic

Extended Asset Fund for LGIP participants The state is exploring the possibility of creating an Extended Asset Fund as an additional investment option for LGIP participants. The Extended Asset Fund would perform on a total return basis, and be priced using a variable net asset value. The Extended Asset Fund would mirror the investment policy currently being used by the Treasury Core. The investment advisor for the State will assist the Office of State Treasurer with the setup of the fund in addition to providing guidance in the RFP search for a Fund Administrator. The Investment Advisor will also provide investment expertise and scenario analysis for this project. Expected services include assisting OST with the following:

- i. Development of a Request for Proposal for a fund administrator.
- ii. Development of prospectus documents for the LGIP.
- iii. Updating and adding language to the OST investment policy.
- iv. Education of LGIP participants on the use and functionality of the Extended Asset Fund

ADDITIONAL SERVICES

4. Special Projects as necessary

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 State operating funds.

All services will be performed only upon request of the State. Work plans and budgets for any studies, extraordinary services or special analyses must be approved in advance by the State.

4. PROPOSAL REQUIREMENTS

In order to be considered for selection, responders must submit a complete response to this RFP in the order shown before. Proposals shall include the following information:

- 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 include:
- identify the submitting organization;
 - identify the name and title of the person authorized by the organization to contractually obligate the organization;
 - identify the name title and telephone number of the person authorized to negotiate the contract on behalf of the organization;
 - identify the names, titles and telephone numbers of persons to be contacted for clarification;
 - explicitly indicate acceptance of the Scope of Services as stated in Section 3;
 - 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;
 - acknowledge receipt of any and all amendments to this RFP.
- 2. Organization:**
- a) 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.
 - b) Fully disclose and describe any relationships with financial institutions or securities brokerage firms that may affect, or appear to affect, investment advice provided to OST.
 - c) Describe the primary sources of revenue for your firm.
 - d) 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.
 - e) 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).

3. Personnel

- a) 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. Note which individuals will be available for the special projects noted.
- b) Identify the number of investment professionals (e.g. portfolio managers, analysts, research analysts, investment advisors) employed by your firm by classification.
- c) Has there been any turnover of professional staff in the firm in the last 12 months? Have there been any additions or reductions?

4. Investment Management Consulting

- a) 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.
- b) 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.
- c) What tools or subscriptions would you make available to assist OST staff?
- d) Briefly describe your firm’s understanding of the State’s investment policy and investment practices. Please see the attached OST Investment Policies.
- e) Given the scope of services, what is the value that your firm can add to OST through your firm’s advisory services?

5. Services Not Performed:

Describe any services the firm is unable or unwilling to provide.

6. Proposed Fees:

State a proposed rate of compensation for your firm’s investment advisory work with the State. This should include a specific fee for transaction specific advisory services as described in Section 3 of this RFP as well as an hourly fee for additional services. Please fully explain the application of any fees as they relate to this proposal. A final fee schedule may be negotiated with the contractor prior to the execution of a contract.

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.

- 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.
- 9. Contractual Requirements:** *Attachment A – Agreement For Investment Advisory Services* contains contracting terms the State requires in the Agreement that are not negotiable. Provide a statement indicating the firm has read the Agreement and accepts all provisions.
- Firms may propose revisions to Agreement for clarification and procedural purposes only. If a conflict exists between the States’ 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 intent of the Agreement will be rejected.
- 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.
- 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.
- 12. Other:** Provide any additional pertinent information.

5. PROPOSAL SUBMISSION

Proposals should only include information essential to meet the requirements of the RFP. The detailed requirements stated in the “Proposal Requirements” section, are mandatory. Please limit your proposal to a reasonable length.

Firms may withdraw proposals at any time before the deadline by providing written notification to the RFP Coordinator. All proposals that are not so withdrawn shall remain firm offers for a period of one-year following the last day to accept proposals.

Delivery: Five (5) paper copies and one electronic copy of your proposal must be delivered or mailed to the following address. 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.

Deadline: Proposals must be received by 3:00 P.M. PT, Friday, January 29, 2010. Proposals received after the deadline and faxed submissions will not be accepted.

Errors in Response: The State will not be liable for any errors in proposals from firms. Firms will not be allowed to correct, amend, or resubmit proposal documents after the submission deadline.

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, omission, 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.

Rights of State: 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 respondent, (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.

Public Records: All proposals, including attachments and other inclusions, become public records upon receipt by the State. Proposals shall be deemed disclosable pursuant to Chapter 42.17 RCW except as exempted by law. Respondents should mark materials claimed to be exempt from disclosure as “confidential.” The proposal’s cover letter should identify specific material claimed to be exempt, corresponding page number(s), and a statement of basis for each claim.

If the State receives an official request to view a firm’s proposal, the State will respond in accordance with RCW 42.17.250 et seq. If any requested information marked as “confidential” does not clearly meet an enumerated and enforceable exemption from public disclosure in accordance with RCW 42.17.250 et. seq, the State will give notice of the request to the affected firm and the material will be made available in ten (10) business days unless the affected firm obtains a court order restraining the State from disclosing such information.

Failure to label materials as “confidential” or failure to timely respond by seeking a court order restraining the State from disclosing such information after notice of request has been given shall be deemed a waiver by the respondent of any claim that such materials are exempt from disclosure.

Incurred Costs: The State 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 responses.

Single Response: If the State receives only one response to this RFP, it may be deemed a failure of competition and, at the sole option of the State, the RFP may be canceled. Likewise, receipt of only one response may allow the State to claim it as a valid sole source acquisition of services.

Publicity: The apparent successful investment advisor 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 approval from the State.

Protest Procedures: In the event a respondent protests this RFP process or the selection of an apparent successful investment advisor, the respondent shall follow the procedures set forth in the Washington Administrative Code (WAC) 236-48-141 through 143. Protests shall be resolved in accordance with above referenced WAC.

6. SELECTION PROCESS

Proposals will be evaluated strictly in accordance with the requirements set forth in this RFP and any addenda issued. Evaluators will consider how well a proposal meets all such requirements. Responses 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 will be eliminated from further consideration.

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

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

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.

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

- The qualifications and experience of individuals assigned to this engagement as well as the breadth and depth of the overall team.
- OST's assessment of the firm's availability and its ability to successfully deliver services on a timely basis.
- OST's assessment of the firm's ability to interact effectively with OST and other state agencies, and other professionals involved in the investment operations.
- Compliance with RFP requirements
- Reasonableness of Costs.

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

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