
**REQUEST FOR PROPOSALS TO PREQUALIFY
INVESTMENT MANAGERS TO PROVIDE
MONEY MARKET INVESTMENT SERVICES
FOR THE
STATE OF VERMONT'S
SHORT-TERM INVESTMENT PROGRAM**

OFFICE OF THE VERMONT STATE TREASURER

Issued May 5, 2008

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I. BACKGROUND and PURPOSE

The Office of the Vermont State Treasurer is inviting investment managers of institutional short-term money market funds to submit proposals to provide services as described herein. The State currently meets its short-term investment needs primarily through diverse money market instruments including government agency discount notes obtained competitively through approved broker-dealers, certificates of deposit bid competitively from pre-qualified banks with in-state branches, collateralized overnight bank deposits, and use of an institutional money market fund investing primarily in short-term government agency securities.

The Office of the Vermont State Treasurer requests proposals from investment managers that wish to be placed on a list of pre-qualified investment managers to provide money market mutual fund vehicles for the State. Selected investment managers must offer stable NAV money market mutual funds comprised only of money market instruments permissible for investment per state statute. These include “money market mutual funds that either are regulated by the securities and exchange commission and whose portfolios consist only of dollar-denominated securities or are managed in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940.”(V.S.A. 32, Chapter 7, § 433). The Office of the Vermont State Treasurer, through this RFP is concentrating its review on Rule 2a-7 type funds, rated and non-rated, that restrict investments in money market funds by quality, maturity, including a weighted average maturity of 90 days or less, and diversity in keeping with that act. Funds submitted through this RFP must seek a stable \$1.00 Net Asset value.

The objectives of the RFP are as follows:

- To develop a list of pre-qualified money market funds that offer favorable terms, conditions and ease of use.
- To develop maximum investment ceilings for the pre-qualified fund.
- To diversify the State’s investment portfolio.
- To obtain the highest return possible, consistent with safety and liquidity.

Investment managers that have been pre-qualified will be notified in writing of such prequalification and account set-up documents will be executed to accommodate future State investments. Funds will be invested with pre-qualified investment managers on an as needed basis by the State; the Office of the Vermont State Treasurer makes no guarantees as to the frequency, length or dollar levels of investments. *The State may elect to invest directly in accounts offered by the investment manager, or may elect to invest through a bank or other sponsored money market “portal” account that offers multiple money market fund options.*

For the fiscal year ended June 30, 2007, the State’s average daily available balance was \$180.3 million. In FY 2007 State short-term funds were invested in high-grade, short-term instruments with a maximum maturity of six months and an average maturity of less than two months, excluding overnight bank deposits and money market funds. The annualized yield on the average daily balance for all short-term funds for the month of March 2008 was 3.27%. For the State’s fiscal year ended June 30, 2007, the annualized yield was 5.27%. As discussed above, money market mutual funds currently represent only one of the State’s short-term investment options. However, depending upon market conditions and the return, risk and other characteristics of any new money market fund that becomes available as a result of this Request for Proposals (RFP), the State may elect to commit substantial portions of its short-term investment funds to this category of investment.

II. Terms and Conditions for Submission of Proposals

The purpose of this section is to state the terms and conditions that will govern the submission of proposals to the State in response to this Request for Proposals.

Proposal Inquiries

All inquiries concerning this RFP shall be made in writing, citing the RFP title, page, section, and paragraph, and shall be submitted to:

Donna Holden
Contracts Administrator
Office of the Vermont State Treasurer
109 State Street, 4th Floor
Montpelier, VT 05609-6200
E-mail: donna.holden@state.vt.us

Investment managers are encouraged to submit questions via e-mail.

Any individuals and/or firms that intend to submit a proposal are prohibited from contacting any employees of the Office of the Vermont State Treasurer other than the contact person. An exception to this rule applies to individuals or firms that currently do business with the Office of the Vermont State Treasurer, but shall be limited to that business and should not relate to this RFP. **Failure to observe this rule may result in disqualification.** Furthermore, no other individual employee or representative of the State of Vermont is authorized to provide any information or respond to any question or inquiry concerning this RFP other than as described herein.

In an effort to provide a fair process and complete information, all written questions and the responses will be summarized in a fact sheet that will be available to any potential respondent and posted on the Office of the Vermont State Treasurer's Web site (www.vermonttreasurer.gov). Similar inquiries will be consolidated into one question. The name(s) of the firms submitting the questions will not be listed.

Any change to or interpretation of the RFP by the Office of the Vermont State Treasurer will be posted on the Web site for the Office of the Vermont State Treasurer (www.vermonttreasurer.gov). Potential bidders are encouraged to check this site for any additions, clarifications, or revisions to the document. Each bidder may submit proposals for one or more qualifying money market funds in one response. The Office of the Vermont State Treasurer reserves the right to reject any submitted proposal for any reason at its discretion. Based on ongoing review of financial data, the Office of the Vermont State Treasurer reserves the right to adjust the maximum investment ceiling for any pre-qualified fund.

Financial Responsibility

The respondent understands and agrees that the State shall have no financial responsibility for any costs incurred by the respondent in responding to this RFP.

The successful bidder shall be solely responsible for meeting all terms and conditions specified in the RFP, its proposal, and any resulting contract.

Number of Proposal Copies

Please submit four (4) paper copies of your proposal to:

Donna Holden
Office of the Vermont State Treasurer
109 State Street, 4th floor
Montpelier, VT 05609-6200
E-mail: donna.holden@state.vt.us

Since this is an ongoing procurement, there is no final deadline for submission. *The Office of the Vermont State will, however, begin its initial review of proposals on May 19, 2008 and reserves the right to limit the total number of prequalified investment managers, as needed, and in the best interest of the State. The Office of the Vermont State Treasurer also reserves the right to terminate consideration of proposals after a reasonable period of time following this RFP issuance date.*

All material received in response to this RFP shall become the property of the Office of the Vermont State Treasurer and will not be returned to the bidder. Regardless of the bidder selected, the Office of the Vermont State Treasurer reserves the right to use any information presented in a proposal.

Disqualification of Proposals

1. Non-responsive Proposals: Proposals that are not responsive or that fail to comply with mandatory requirements of this RFP shall be deemed non-responsive and shall be disqualified. Non-responsive proposals shall include, but not be limited to, those that fail to address or meet any mandatory requirement, and those submitted in insufficient number or in incorrect format.
2. Collusion: Collusion by two or more bidders agreeing to act in a manner intended to avoid or frustrate fair and open competition is prohibited, and shall be grounds for rejection or disqualification of a proposal or termination of a contract.
3. Debarred Bidders or Subcontractors: A bidder who is currently subject to any Vermont or federal debarment order or determination shall not be considered for evaluation. If a bidder's proposal is dependent upon the services of a named subcontractor and the disqualification of this named subcontractor would materially alter the proposal, then that proposal shall be deemed non-responsive if the named subcontractor is found to be debarred.

Contract Duration

This is an ongoing prequalification process and no deadlines are established. An investment manager must be pre-qualified and have a "pre-qualification agreement" in place before it is eligible to receive investment funds from the State.

Once pre-qualified, the investment manager will remain on the approved list unless it requests to be removed, or until and if the Office of the Vermont State Treasurer elects to remove an investment manager. The Office of the Vermont State Treasurer reserves the right at its sole discretion to add or remove investment managers from the approved list at any time.

Cover Letter

The proposal must contain a cover letter and introduction, including: the company name and address, and the name, e-mail address, and telephone number of the person or persons authorized to represent the respondent regarding all matters related to the response. The cover letter must contain the following statement:

“We have read the State’s Request for Proposals (RFP) for Money Market Investment Services and fully understand its intent. We certify that we have adequate personnel, equipment, and facilities to provide the State’s requested services that we have indicated we can meet. We understand that our ability to meet the criteria and provide the required services shall be judged solely by the Office of the Vermont State Treasurer.”

A person authorized to bind the firm to all commitments made in its proposal shall sign this letter.

In addition, the cover letter must certify that:

- The bidder has thoroughly examined the RFP requirements, and the fees of proposed investment products cover all the services that the State has requested.
- The bidder acknowledges and accepts all terms and conditions included in the RFP.
- The bidder agrees to provide services in a manner acceptable to the State, and as stipulated in the RFP.
- The bidder and its key professionals do not have or anticipate a potential conflict of interest with the Office of the Vermont State Treasurer.
- The bidder has completed and submitted, with the RFP response, the Vermont Tax Certificate (provided) required by this RFP.
- The bidder has submitted financial information.

III. SCOPE OF WORK, MINIMUM QUALIFICATIONS AND OTHER CERTIFICATIONS AND REQUIREMENTS

The bidder is requested to submit a narrative addressing the business specifications and minimum requirements (Sections IIIA and IIIB below). The narrative should be prepared simply and economically, providing a straightforward and concise description or explanation and begin with a "yes" or "no" statement.

A. General Scope of Work and Business Specifications

With respect to the State's utilization of money market instruments, the proposed fund meets the following requirements:

- ◆ The money market fund shall be available for investment on any business day that the bond market is open.
- ◆ Investments must be able to occur up until at least 3:00 pm eastern time and must be able to be funded by wire transfer up until at least 5:00 pm eastern time. The contractor's ability to allow a later trading cutoff shall be viewed positively. The proposal should describe the contractor's procedures for wiring out funds received the same day.

The Office of the Vermont State Treasurer will provide fed wire instructions to investment managers once they are pre-qualified. All transactions will be completed by fed wire.

- ◆ The bidder can accommodate investment and redemption amounts that typically range from \$1 million to \$20 million, although higher amounts are possible. Investment balances may be considerably higher.
- ◆ The fund will be managed in compliance within the spirit and intent of SEC Rule 2a-7.
- ◆ The fund will maintain the objective of an NAV of \$1.00.
- ◆ The fund will maintain a weighted average maturity in the portfolio not to exceed ninety (90) days.
- ◆ The fund will hold assets with a third-party custodian.
- ◆ The investment adviser must be eligible to do business in the State of Vermont.
- ◆ The fund provides Internet-based transaction processing.
- ◆ The fund will also provide telephone access to accept trades and/or inquiries.
- ◆ The fund will provide immediate trade confirmation.
- ◆ The fund will distribute dividends on the last business day of each month.
- ◆ Any investment adviser selected to perform these services shall be required make available on line or otherwise deliver monthly asset, transaction and performance statements within five business days of each calendar month end.

B. Bidder Minimum Qualifications

PLEASE NOTE: No bid will be accepted for review unless it meets all criteria in this section. Compliance with all criteria listed below is mandatory. Lack of compliance will automatically disqualify the bidder.

Authorized to Conduct Business in Vermont: The bidder must be authorized to conduct investment management services in Vermont and have all applicable registrations. If the bidder is a bank, the bidder must hold any required authorizations by the Department of Banking, Insurance, Securities and Health Care Administration and comply with all applicable statutes. If the bidder is a bank, it must have a rating of satisfactory or better under the Community Reinvestment Act from the applicable federal oversight agency (FRB, OCC, OTS, FDIC).

Investment Capacity, Years of Experience: Portfolio managers of the proposed Fund must have at least a five-year performance history for each proposed investment product as of December 31, 2007 and must be the team responsible for the management of the Fund.

The bidder must have at least \$2 billion in institutional (taxable and non-taxable) assets under management in the subject product or related strategies as of December 31, 2007.

The bidder must be SEC-registered or exempt from registration with the nature of the exemption provided. The firm must submit its Form ADV Part I.

The bidder must have at least one tax-exempt institutional client invested in the subject Fund or similar strategy as of December 31, 2007.

Technology: The bidder must conduct operations using various mediums to receive transaction data (telephone, writing, facsimile transmission), including Internet.

Required Financial Information: Each bidder is requested to submit one copy of their annual report or other form of financial statements for the most recent year and most recent interim reporting period. If the bidder is a bank, include the most recent call report and UBPR. Successful bidders shall continue to furnish to the State updated issues of these report in a timely manner.

Willingness to Operate within the Investment Statutes and Investment Guidelines of the State of Vermont

The proposing organization must read Attachment A, V.S.A. 32 § 433 Investment of state money and certify that it will comply with this statute, as amended..

The proposing organization must read Attachment B, State of Vermont, Office of the State Treasurer, Short-term Investment Guidelines and certify that it will comply with these guidelines, as amended.

The Fund must have established asset allocation guidelines and limitations by type and industry. The successful bidder must guarantee to follow these guidelines and restrictions.

The investment manager will notify the Office of the Vermont State Treasurer immediately, by telephone, and in writing, in the event of a material adverse change in its or its Fund(s)' financial condition.

The investment manager and key professionals do not have or anticipate a potential conflict of interest with the Office of the Vermont State Treasurer.

Office of the Vermont State Treasurer
RFP – Prequalification of Investment Managers
For Short-Term Investment Program

The investment manager is in compliance with the State of Vermont’s Unclaimed Property Act (27 V.S.A. Chapter [14]).

The investment manager is in good standing with respect to, or in full compliance with, a plan to pay any and all taxes due the State of Vermont.

IV. TECHNICAL PROPOSAL

The purpose of the technical proposal is to demonstrate the qualifications, competence and capacity of the bidders. This section and any required attachments/schedules will comprise the technical proposal and must be answered in its entirety.

The technical proposal must address all points outlined below and should be prepared simply and economically, providing a straightforward, concise description of the bidder's capability to satisfy the requirements of this RFP.

If the proposed fund(s) are covered by a current prospectus, please submit four copies of the prospectus. Also, answers to any of the following questions may be made by a reference to a page number in the prospectus, if appropriate.

Performance:

The bidder shall explain risk control procedures used to minimize adverse macro/micro economic impact to proposed fund portfolios (credit risk, yield curve risk, interest rate risk, debt option risk, etc.).

1. For each proposed fund, provide (net of fees including custodial fees) performance over the past five years using the attached Fund Service Profile and Performance Data Sheet.
2. Provide a summary of performance (by fund) of all taxable money market funds under management by your organization.

Maintenance of NAV:

1. For money market mutual funds, what strategies does your organization employ to maintain a \$1.00 NAV? How is the NAV monitored and calculated and at what frequency?
2. In the case of all funds managed by your organization with maintenance of a \$1.00 NAV as a strategy or objective, has the value ever dropped below \$1.00? If yes, please explain.
3. If any fund under your organization's management experienced a pricing fluctuation that could have resulted in a reduction of the \$1.00 NAV, what steps were taken to maintain the \$1.00 NAV?
4. If there was a price deterioration, what steps were taken to safeguard the capital and insure the liquidity of the fund for the participants?

Investment Activity and Ability to Handle Transaction Efficiently:

- Ability to utilize various mediums for investment transactions:
 1. Identify the following medium used to transact purchases and redemptions in your current funds:
 - Telephone: _____
 - Fax: _____

- Internet: _____
 - Other (specify): _____
2. Will all of the above mediums, including Internet, be available for the State without minimum or maximum dollar level limits?
- Ability to obtain earnings information on first business day:
 1. Will earnings data be available on the first business day following each month end?
 2. If yes, how will this data be made available?
 - Hours of operation for money market funds:

Identify hours for same-day purchases and redemptions.

 1. How long does it take to execute?
 2. Can you meet a service requirement of keeping trading open until at least 3:00 pm?
 3. After the trading deadline has been met, how long will an inquiry line be open?

Core Services: Provision of investment management, pricing, portfolio accounting:

- Provide an overview of the management of money market funds:
 1. Briefly outline the procedures the State will be required to follow to make a transfer of funds.
 2. Briefly describe the process by which the fund is valued on a daily basis.
 3. Do you have a system that provides data on posting errors by your organization? If yes, provide summary results for the past three years.
 4. Describe quality controls in place to assure accuracy in trading transactions. Has there been any transaction that was not properly or fully executed that was not completely resolved within the business day during the last three years? If yes, explain.
 5. Identify custodial banks with which you do business.
- Daily and monthly reports:
 1. Will the seven (7) and thirty (30) day interest rate yield calculations be included on the monthly statement?
 2. When will reports be available to the State following the end of the month? How many calendar days? It is the expectation of the Office of the Vermont State Treasurer that these statements will be available on line within five (5) business days of month-end and hard copy statements within ten (10) business days. Will reports include rating information of each security contained in the portfolio? (The Office of the Vermont State Treasurer will be required to report on the credit

ratings of Trust assets under Government Account Standards Board (GASB) Statement 40, so at a minimum this information must be sent to the Office of the Vermont State Treasurer.)

Compliance/Internal Control:

1. Are there or have there been any material litigation, arbitration or regulatory proceedings, either pending, adjudicated or settled, that your organization has been subject to within the last five years that involved issues concerning the suitability of the sale or purchase of securities to institutional clients or fraudulent or unfair practices related to the sale of securities to an institutional client? If yes, please provide an explanation. For the purposes of this question, proceedings are material if your independent accountant, applying generally accepted accounting principles, determines that such proceedings required disclosures on your financial statements. In addition, please include a list of all litigation or administrative proceedings that have involved the State of Vermont as a party or administrative adjudicator, notwithstanding materiality, and explain the nature of each dispute.
2. Provide a summary of your firm’s compliance procedures. Identify senior or key personnel in the firm’s compliance process.
3. Does your firm maintain a code of ethics? If so, please attach.
4. During the past five years, has the firm been subject to any governmental regulatory or law enforcement agency’s investigation, examination, or other proceeding directly involving the firm, its owners, or employees other than such examination or other proceedings as are routinely conducted in the ordinary course of the firm’s business?
5. During the past five years, has the firm been subject to any litigation alleging fraud, breach of fiduciary duty, or other willful misconduct?
6. Provide a summary of your firm’s internal control structure. Does the firm conduct periodic risk assessment? Have you had a material breach of internal control procedures over the past five years? If yes, how was it discovered and by whom? What corrective steps were taken?
7. Discuss your policy regarding, and current use of, “soft dollars”, directed trades and recapture programs soft dollars. What services are purchased with soft dollars?
8. Have you ever violated a client guideline? If so, describe the violation and the resolution.
9. Have any of your public sector clients ever sustained a loss on security transactions arising from a misunderstanding or misrepresentation of the risk characteristics of the instruments? If yes, provide an explanation.
10. Has a public-sector client, in the last five years, claimed in writing that your firm was responsible for an investment loss? If yes, provide an explanation.
11. Place a “Y” by each regulatory agency that your organization is examined by and for which your organization is subject to its rules and regulations. Include any identifying registration numbers.

<u>Agency</u>	<u>Y/N</u>	<u>Registrations</u>
FDIC	—	_____
SEC	—	_____

NYSE	_____	_____
OCC	_____	_____
FRB	_____	_____
Other (specify)	_____	_____
_____	_____	_____
_____	_____	_____

Briefly describe how regulatory compliance is handled for each proposed fund. Compliance or management of the fund in a manner consistent with Rule 2a-7 is an important factor to the State.

Disaster Recovery/Business Continuity Plan:

1. Describe your Disaster Recovery/Business Continuity Plan.
2. What type of back-up facility or “hot site” does the organization have for all primary systems used in providing services outlined in this proposal. Include location(s).
3. What mechanisms are in place to assure the regular functioning of your fund in the event of a failure of data or support services for your trading, customer service, or any other service being provided. Describe the results of any disaster recovery testing, including the amount of time needed to transfer operations to a hot site, if any.

Investment philosophy/credit research capability

For each proposed fund either refer to prospectus or answer directly:

1. Describe the investment process. Include a discussion on the allowed and prohibited security types and sectors, the average and maximum days to maturity of the fund, and the allowed quality ranges. Describe your investment guidelines and performance objectives.
2. Describe the risk controls which you employ in the portfolio construction process (credit risk, yield curve risk, interest rate risk, debt option risk, etc.). What limits/constraints do you establish? What software do you use in your risk control analysis process? Is it internally or externally developed/maintained?
3. Provide a complete list of instrument types used in each fund. Discuss the manner in which each is used and its pros and cons.
4. With regard to 3, above, please provide particular information regarding current and past use of asset backed securities including structured investment vehicles (SIVs). Has the fund ever invested in SIVs? With what outcomes? Does the fund distinguish between asset backed securities closely associated with a sponsoring entity versus those that are not?
5. Describe the issue size, quality, and liquidity criteria that you apply in security selection.
6. Describe your use and frequency of use of derivative securities.
7. Describe your firm's brokerage policies relating to your funds. Is your firm or its parent or affiliate a broker/dealer? Does your firm trade for client accounts through this broker/dealer? If so, state how much trading, and the reason for trading with this related party.

- The safety of the fixed income instruments in a money market fund is critical to the State of Vermont. Please describe your credit research capability and your ability to assist in a review of investment portfolios on a monthly basis.

People/organization

- Provide a list of the professionals involved in each proposed product in the manner listed below:

PORTFOLIO MANAGEMENT

Name	Title/ Responsibilities	Years Experience	Years at Firm	Degrees/ Designations	Sponsoring Body or School

RESEARCH

Name	Title/ Responsibilities	Years Experience	Years at Firm	Degrees/ Designations	Sponsoring Body or School

TRADING

Name	Title/ Responsibilities	Years Experience	Years at Firm	Degrees/ Designations	Sponsoring Body or School

- Provide biographies of no longer than one page on each of the persons servicing this account. Please include prior employment history and any registration ID (NASD).

Discuss the causes and impact of any turnover (departures or hiring/promotions) of any senior professionals directly involved in each proposed product, which you have experienced in the past five years. How long has the team been together? Indicate when and why any senior professional dedicated to this product left or joined the firm in the past three years. What were/are their job responsibilities? For personnel who have left indicate job titles and years with the firm and their replacements.

JOINED

Date	Name/Title	Responsibilities

DEPARTED

Date	Name/Title	Responsibilities	Years at Firm	Reason for Leaving	Replaced by (Name/Title)

Investment Capacity

- Current assets under management – (must be at least \$2 billion):

1. What are your current assets under management (total)?
2. What are your current assets under management in money market funds (total)?

Years of operation:

1. How long has your firm been in operation?
2. How long has your firm handled money market accounts?
3. How long has your firm handled public sector accounts?

- Instrument specialties: Please describe any instruments for which your organization has specialized in over the past five years.

Optional Services:

Description of services to be provided, time schedules and reporting options.

- Rebate tracking for bond issues (with or without subcontractor):
 1. Describe your capabilities and experience relative to tracking, analyzing and reporting arbitrage rebate calculations for the State relative to investment of tax-exempt bond proceeds.
 2. What information will you require to calculate arbitrage on a specific bond deal?
 3. Does your arbitrage service conform to and follow the requirements set forth in the Tax Reform Act of 1986 and all U.S. Department of the Treasury arbitrage regulations as amended?
 4. Can you provide the State with a concurrent arbitrage record keeping/reporting service?
 5. Please indicate fees for rebate tracking.

High: ____ days
Low: ____ days

2007: Average Annual Yield (net of fees): ____% Average Weighted Maturity: ____ days
Average Annual Yield (gross): ____% As of December 31: ____ days
Seasonal fluctuations:
High: ____ days
Low: ____ days

B. Benchmark comparisons:

Benchmark(s) established for this fund: Briefly explain how benchmark(s) is/are selected.

C. Provide benchmark comparison data for each of the last five years the fund was in operation. (Attach analysis.)

D. If performance was below the benchmark for any quarterly period within the past five years, indicate the time periods, degree of variance to the benchmark, and any actions taken by your organization to improve performance.

7. Current number of participants:

8. Current number of accounts:

9. Average number of monthly transactions:

A. Purchases:	By Wire/EFT _____	By check _____
B. Redemptions:	By Wire/EFT _____	By check _____
C. Transfers: _____		
D. Exchanges: _____		

10. Is NAV calculated at \$1.00 daily? Yes _____ No _____

11. Is the \$1.00 NAV guaranteed? Yes _____ No _____

If “Yes”, please indicate source of any insurance: _____

12. Transaction size Minimum Maximum

A. Purchases:	\$ _____	\$ _____
B. Redemptions:	\$ _____	\$ _____

13. Number of accounts opened/closed for twelve month period ending December 31, 2006:

A. Number of accounts opened: _____
B. Number of accounts closed: _____

V. CERTIFICATION

I attest to the accuracy of our responses to your RFP, and to the above certifications.

Signature

Date

Print Name

Title

Firm

Attachment A Title 32: Taxation and Finance

Chapter 7: THE PUBLIC MONEYS 32 V.S.A. § 433. Investments of state money

§ 433. Investments of state money

(a) Investments of state funds shall be made in:

- (1) obligations of the United States, its agencies and instrumentalities, which have a liquid market with readily determinable market value;
- (2) certificates of deposit and other evidences of deposit at banks and savings and loan associations approved by the treasurer;
- (3) bankers' acceptances issued by domestic banks where the guaranteeing bank is rated in the highest tier assigned to the investments by at least two nationally recognized rating agencies;
- (4) commercial paper rated in the highest tier by at least two nationally recognized rating agencies;
- (5) investment-grade obligations of state or local governments, instrumentalities, and public authorities;
- (6) repurchase agreements whose underlying purchased securities consist of any of the investments specified in subdivisions (1) through (5) of this subsection;
- (7) investment agreements or guaranteed investment contracts rated or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in the highest tier assigned to such investments by a nationally recognized rating agency, and where the treasurer has the option to terminate each agreement in the event such rating is downgraded below the highest rating tier; and
- (8) money market mutual funds that either are regulated by the securities and exchange commission and whose portfolios consist only of dollar-denominated securities or are managed in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940.

(b) Investments of state funds shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

(c) Investments of state funds shall be made in accordance with written guidelines adopted by the treasurer. Such guidelines shall address the liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management, with primary emphasis on safety and liquidity. (Amended 1991, No. 238 (Adj. Sess.), § 1, eff. May 28, 1992; 2005, No. 46, § 1.)

Attachment B SHORT-TERM INVESTMENT GUIDELINES

STATE OF VERMONT OFFICE OF THE STATE TREASURER SHORT-TERM INVESTMENT GUIDELINES

Adopted June 30, 2000
Revised August 1, 2004
Revised November 1, 2004
Revised February 25, 2005
Revised April 9, 2007

Objectives

The statutory guidelines for permissible investments are cited in Title 32 Section 433 of Vermont state law. All investments must fall within the broad categories as outlined in Section 433. In addition, the statute also states:

“(b) Investments of state funds shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” and

"(c) Investments of state funds shall be made in accordance with written guidelines adopted by the treasurer. Such guidelines shall address liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management, with primary emphasis on safety and liquidity."

These written investment guidelines have the following objectives (in order of importance): (1) to preserve the principal of the invested funds; (2) to provide sufficient liquidity to meet anticipated cash needs; and (3) to maximize the return on investments subject to guideline restraints.

Definition of Short-Term Investments

Short-term investments consist of any cash, publicly traded investment grade securities, or any other investments as described in these guidelines or state law. These securities, supplemented by ongoing cash flow, should be available to pay claims and other expenses coming due within one year. At all times, the need for satisfactory yield levels will be superseded by protection of the principal and the potential need of the State of Vermont for liquidity.

Eligible Short-Term Investments

- a. All U. S. Government securities backed by the "full faith and credit" of the United States, its agencies and instrumentalities; fully collateralized repurchase agreements whose

underlying collateral consists of such obligations or other eligible money market instruments;

- b. Certificates of deposit or other evidences of deposit at banks and savings and loan associations approved by the Treasurer. The level of collateralization will be determined by the Office of the State Treasurer based on a quarterly review of bank financial data, regulatory capital, and ratings from nationally recognized independent rating firms. Where collateral is required, it will consist of US Government and/or Agency securities, Vermont Municipal Notes, or other collateral acceptable to the Office of the State Treasurer. In those cases of collateralization, the institution holding the securities must segregate the collateral in a separate trust or a Federal Reserve account. No commingling of collateral with other assets of the institution is allowed. The full amount of FDIC guarantee can be used as a portion of the collateral requirements.
- c. c. Prime bankers' acceptances, which shall mean bankers' acceptances that are eligible for purchase by the Federal Reserve System, and trade in an active secondary market.
- d. First Tier commercial paper, which shall mean commercial paper of "A" quality as defined by two nationally recognized statistical rating organizations that rate such securities. Preference will be given to commercial paper with an A1+/P1/F-1+ ratings, however A1/P1/F-1 (two of three) rated paper is permissible. The long-term rating of the issuer's debt must be "A" or better. All permissible commercial paper must trade in an active secondary market.
- e. Tax-exempt securities exempt from federal arbitrage provisions applicable to investment of proceeds of this state's tax-exempt debt obligations. f. Money market mutual funds that either are regulated by the securities and exchange commission and whose portfolios consist only of dollardenominated securities or are managed in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940.

Prohibited Investments

Investments that are exceptions to these guidelines may not be purchased. The following investments are specifically prohibited:

- a. Derivative securities;
- b. Real estate, direct mortgages or real estate investment trusts;
- c. Commodities;
- d. Short sales and margin purchases;
- e. Oil, gas, mineral, or other types of leases;
- f. Common stock;
- g. Structured notes.

Communications/Notification

The institution which holds the State of Vermont's investments will provide the Treasurer's office with reports on account investment activity as well as collateralization levels, if collateral is required. The

institution will periodically report to the Treasurer's office to ensure that investments meet the investment guidelines. In the event of a ratings downgrade below the minimum acceptable quality level stated herein, the institution from which the State has purchased the investment shall contact the Treasurer's office immediately. The investment will be liquidated as quickly as possible without unduly jeopardizing the principal.

Performance Measurement

The following benchmarks will be used in evaluating short-term investment performance:

a. the average daily Federal Funds Rate for the period of investment, or b. the average three-month U.S. Treasury Bill Auction Rate for the equivalent period.

Regulatory Compliance

The investments of the State of Vermont will be managed in compliance with investment statutes for the State of Vermont and any rules or regulations thereof. The burden for understanding laws, rules, or regulations falls upon the institution participating in the State of Vermont's short-term investment program.

Maturity

Short-term investments, supplemented by ongoing cash flow, should be available to pay claims and other expenses coming due within one year. At all times, the need for satisfactory yield levels will be superseded by protection of the principal and the potential need of the State of Vermont for liquidity.

Diversification

Maximum in U.S. Government Securities	100% of portfolio
Maximum in U.S. Government Agency Securities	100% of portfolio
Maximum in Prime Commercial Paper	75% of portfolio
Maximum in Certificates of Deposit (excludes Bank in Vermont)	50% of portfolio
Maximum in Negotiable Certificates of Deposit	25% of portfolio
Maximum in Government Security collateralized Repurchase Agreements	100% of portfolio
Maximum in Prime Bankers' Acceptances	25% of portfolio
Maximum in Money Market Funds	No total limit; maximum 50% in any one nongovernmental fund
Maximum in Bank in Vermont Program	\$40 million
Maximum 25% in one industry, maximum 10% in any one issuer of commercial paper, corporate securities, or bankers' acceptances.	

Approved:

/signed/_____ 4/9/07

George B. "Jeb" Spaulding Date
Vermont State Treasurer

End RFP