

STABLE VALUE INVESTMENT MANAGEMENT SERVICES

Vermont State Treasurer's Office
August 12, 2010

QUESTIONS & ANSWERS

1. Does the \$5 billion minimum assets under management apply to stable value AUM only or total firm AUM?

Answer: The \$5 billion threshold is for total firm AUM.

2. Could you provide a list of the current wrap providers for the existing SDIA accounts, the amount they wrap, MV/BV, and the current crediting rates by issuer?

Answer: There is a single wrap provider, AEGON/Monumental Life, with two separate contracts wrapping amounts with asset managers as follows:

1. Loomis Sayles

Market Value (June 30): \$41,516,058.48

Book Value (July 1): \$39,866,473.14

MV/BV (Estimated): 104.14%

Crediting Rate (July 1): 3.958%

2. Dwight Asset Management

Market Value (June 30): \$39,807,921.02

Book Value (July 1): \$39,501,657.18

MV/BV (Estimated): 100.78%

Crediting Rate (July 1): 2.570%

3. Could you provide the number and account balance for active participants versus inactive participants, including the age and asset allocations for active participants?

Answer: The following charts provide additional demographic data as of March 31, 2010. There are no differences in asset allocation for any group of participants.

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Demographic Summary by Retirement Status

Status	Count	Average Age	Sum of Account Balances	Average Account Balance
Active/Inactive/Vested*	440	59.19	\$9,314,744.27	\$21,169.87
Retired/Beneficiary	1,585	71.82	\$72,615,697.80	\$45,814.32
Total	2,025	69.08	\$81,930,442.07	\$40,459.48

Detail Breakdown of Active/Inactive/Vested Category

Status	Count	Average Age	Sum of Account Balances	Average Account Balance
Active	389	59.40	\$8,541,127.11	\$21,956.62
Inactive	6	59.83	\$207,507.53	\$34,584.59
Terminated Vested	45	57.31	\$566,109.63	\$12,580.21
Total	440	59.19	\$9,314,744.27	\$21,169.87

*** Definitions**

Active members are employed and participating in the retirement system.
Inactive members are terminated members who have not withdrawn their contributions from the retirement system but are not vested.

Terminated vested members are those members who have terminated employment, are vested, and have not yet elected early or normal retirement.

4. **Are you expecting any changes in the current demographics, such as an early retirement program that would move the remaining active employees to inactive?**

Answer: No

5. **What is the amount of revenue sharing that will be required by the state's TPA (Great West) in the proposed Stable Value fund solution?**

Answer: Great West is reimbursed at a rate of 0.16% per annum of the participant balances. This is on a fee basis, not revenue sharing.

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6. If the solution for the SDIA is an existing pooled fund; must all of the wrap providers within the fund be rated by two nationally recognized rating agencies of AA-/AA3 or better..as it points out right below in the minimum bidder qualifications that A+/A1 is acceptable rating for an insurer? This seems to be a mixed message. I can understand holding insurance companies and banks or other financial entities to different levels but it is not clear on this point.

Answer: The State is modifying its minimum qualifications in response to this question.

The qualifications differ based on the type of service to be bid. If the bidder is a firm proposing wrap investment for our existing portfolio managers, it must meet long term credit rating minimum qualifications of at least two ratings of A or A2, or equivalent, from nationally recognized rating organizations.

In addition, the rating agencies provide financial strength/claims paying ratings specifically for insurers. The Treasurer's Office is requesting that the insurer, or any similarly rated proposer, meet at least an "A-" AM Best Financial Strength Rating and an A1/A+/A+ (Moody's/Standard&Poor's/Fitch) or equivalent rating from a nationally recognized agency.

The above minimum qualifications apply to stand alone services proposed by wrap providers to wrap investments for our current portfolio managers rather than a bundled investment/wrap proposal.

If the proposer is an investment manager proposing a bundled management/wrap contract (separately managed or commingled) the lead proposer must be the investment manager who will also secure wrap services. The RFP outlines the applicable minimum qualifications for the manager based on assets under management and experience with stable value products. Because products may include a number of configurations using multiple wraps, the overall credit quality and financial strength of the wrap product will be assessed through the RFP process based on factors including the number of wrappers, percentage of coverage, step-up provisions, overlapping coverage, and any terms or risk mitigation provisions included in the proposal. It

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would be expected, however, that the overall risk of the proposed structure, as determined by the State, would meet similar standards to those used for proposed stand-alone wrap contracts.

Also, please see addendum at www.vermonttreasurer.gov

7. If the solution for SDIA is an existing pooled fund: SDIA would own units in the collective trust, however if the collective trust owns assets that are owned by an insurance company, does this preclude the use of the collective trust?

Answer: Not necessarily, however the State will require a detailed description of the proposed structure for review.

8. Are the current wrap providers willing to discuss changing the underlying managers? We did not identify the current wrap providers, are you will to release their names?

Answer: The current wrap provider is AEGON. The purpose of the RFP is to replace the wrap provider, not the asset managers. However, a wrap provider may also propose asset management services, or both wrap coverage and asset management as part of a bundled, pooled or commingled structure, or some other service acceptable to the State that achieves the objectives of a stable value investment.

9. Would it be possible to get a copy of the Stable Value Fund RFP in Word format?

Answer: For a word version of the RFP, [CLICK HERE](#)

10. Would the State of Vermont consider a response for the stable value mandate for a newly developed strategy from a firm that manages over \$25 billion in core-related assets in the US, and whose parent company has offered guaranteed products for over 200 years, currently provides these services on over \$110 billion assets, and has \$20 billion in stable value wrap capacity from its insurance company parent?

Answer: Yes, however the strategy must substantively achieve stable value investment objectives, a detailed description of the strategy must be provided, and the strategy must be acceptable to the State.

11. Can you verify whether or not it is acceptable for an asset manager to respond to the RFP only for the asset management portion of the proposal, or do managers have to respond to both asset management and the insurance wrap?

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Answer: No, the State will not entertain responses for asset management only.

12. Would you happen to have a word version? That would help with responding.

Answer: See answer to question #9

13. Are the existing stable value portfolios separate accounts or commingled portfolios? What are the respective liquidation provisions of each portfolio?

Answer: The existing portfolios are two separately managed portfolios managed by fixed income managers, each wrapped by a single provider (same wrap provider with separate contract). If termination of the existing wrappers were to occur, it would be at the market value. See question #2 for book to market ratio as well as Attachment C of the RFP.

14. If a commingled fund is being used and its market to book ratio of underlying assets is below 100%, will 100% of the book value be available for transfer at the end of the 12-month put period?

Answer: See question #13

15. Would you be willing to consider wrap providers with a minimum split rating of AA-/A1 or A+/Aa3 or better?

Answer: See answer to question #6

16. Who are the current wrap providers for the SDIA fund?

Answer: See answer to question #2

17. Currently, who manages the overall Fund with regards to cash flows and who is responsible for negotiating wrap contracts for the existing stable value portfolios?

Answer: The State Treasurer's Office on behalf of the Retirement Boards negotiates the contracts, subject to Board approval. The Treasury Operations Division manages cash flows and communicates third party administrator cash disbursements needs to the custodian and the fixed income managers. A small cash buffer account is maintained with the custodian bank.

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18. In Part 1, section 1.2 Minimum Bidder Qualifications, there is a requirement for managers to serve as investment managers of stable value funds and have at least \$5 billion in assets under management. Does this \$5 billion minimum pertain specifically to stable value products or any investment product?

Answer: See answer to question #1

19. In Attachment C, page 37 Section 1. Current SDIA Investment Policy and Guidelines:

- the Quality restrictions require at least two investment grade ratings from "S&P, Moody's, and Duff & Phelps". Duff & Phelps no longer provides credit ratings. Would you amend this list to include another agency, such as Fitch?

Answer: The guidelines are based on the original negotiation with the investment managers and the wrap provider. The list will be amended. As noted in the RFP, the State will consider other changes to the current investment guidelines and the bidder may submit multiple wrap proposals based on one or more set of proposed guidelines.

- The return objective to beat the Lehman (Barclays Capital) Aggregate Index, after fees over rolling three year periods is unrealistic for a portfolio with the quality and duration restrictions of the SDIA. These restrictions are typical for stable value products in general. Would you consider changing the performance object to one more in line with the risk/return profile more typical of stable value products (e.g., intermediate government/credit index)?

Answer: The State will consider changes to the current investment guidelines as noted in section 2.1 of the RFP.

20. We would propose an investment in a commingled stable value fund, specifically a bank-sponsored, collective trust fund governed by a Declaration of Trust. The provisions of this declaration supersede any other agreements we might have with investors in the fund, including an Investment Management Agreement (IMA). Are you willing to acknowledge in writing that the Declaration of Trust would govern in the event of any conflict between it and the IMA?

Answer: The State will require the vendor's Declaration of Trust to be included as an attachment to the state contract, together with any other applicable documents such as disclosure materials and investment guidelines. Conflicting terms would need to be considered on a case-by-case basis. The State will need to review the entire RFP response and

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the Declaration of Trust prior to making any determination. Any exceptions to the terms included in our standard contract provisions must be stated in the RFP response.

21. We currently have two public plans in our fund but one made its initial investment within the past month, thus they may be unwilling to serve as a reference. If so, would the fact that we have only one other public plan reference disqualify us?

Answer: The minimum requirements are stated in the RFP and further clarified in the response to question #6 above. The State will not prescreen eligibility for a potential proposer.

22. We would need to stipulate one change to language in the Standard State Contract Provisions (Attachment C). Paragraph 6 on page 27 would need to be changed as shown below in boldface:

"The Party shall indemnify the State and its officers and employees in the event that the State, its officers or employees become legally obligated to pay any **direct** damages or **direct** losses arising from any act or omission of the Party". Is this change possible?

Answer: The change requested will not be accepted. The Office of the Attorney General will accept the following change:

"The Party shall indemnify the State and its officers and employees in the event that the State, its officers or employees become legally obligated to pay any damages or losses arising from any negligent act or omission or willful misconduct of the Party."

23. Is the SDIA accepting new participants? If not, is it likely it ever would again?

Answer: No

24. Can current participants direct contributions (either their own or the state's) into this investment?

Answer: No

25. In proposing a separately managed stable value portfolio (including wrap contract services), do actual wrap contract documents have to be submitted with the RFP response? Or, is it acceptable to propose a wrap strategy including names of wrap issuers?

Answer: The bidder should provide all of the information requested in the RFP including detail on the wrap services. Complete responses to the applicable section #2 of part 4.4 of the RFP are required. The bidder

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is encouraged to provide all relevant information they believe will be helpful in evaluating their proposal.

26. Are the two portfolios wrapped separately, or are they combined for wrap purposes? What entity is responsible for managing the wraps?

Answer: See answer to question #2.

27. Will the State disclose the names of the actual wrap providers currently held in the Loomis Sayles and Dwight portfolios? Is it permissible for a bidder to discuss the current provisions in such contracts, and to assess willingness to retain wrap contract coverage for the portfolios after a change in manager?

Answer: See answer to question #2. As long as such communications do not involve collusion, misconduct, or other inappropriate activity, the State does not have an opinion regarding communication among independent 3rd parties. Please also see requirements of 4.2.1.

28. Is there any portion of the SDIA that represents amounts from any 403(b) plan? If so, how much?

Answer: No

29. What types of plans are included in the SDIA? (e.g., 401(a), etc.)

Answer: The Single Deposit Investment Account (SDIA), a non-contributory Section 401(a) Defined Contribution Plan. Please see Attachment C, section 6.

30. Is the SDIA interest crediting rate fixed and guaranteed for a specified term at the participant level? If so, what is the current rate, and which wrap entity provides the guarantee?

Answer: Crediting rates are updated monthly based on formula established by contract. Historical crediting rates are included in Attachment C, section #2 of the RFP, and updated in question #2 above. See also response to question #2 for current wrap provider information.

31. The State of Vermont 457 Deferred Compensation Plan has a Stable Value Fund with almost the same asset balance as the one described as the SDIA, and is also managed by Dwight. Is the SDIA a separate and distinct stable value investment option from the State's 457 Plan Stable Value Fund?

Answer: Yes

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32. In section 1.2, Minimum Bidder Qualifications, you provide that: "The bidder must currently serve as a manager for stable value funds and have at least \$5 billion minimum assets under management with at least seven years experience managing such funds and have at least three (3) IRC 401(k), 403(b) or 457 that are using its stable value as of March 31, 2010." Does the \$5 billion minimum in assets under management apply specifically to stable value portfolio assets?

Answer: See answer to question #1

33. With respect to section 3.1.5 Subcontracting, to the extent that our firm is required to vote proxies under the investment management agreement, would the State of Vermont consider a proxy voting service to be a subcontractor?

Answer: Because these are fixed income accounts, it is highly unlikely that proxies will need to be voted. However, the State would consider allowing a sub-contractor to vote proxies, or would use its existing vendor.

34. With respect to the certification required in the Tax Certificate and within section 4.2.1, Cover Letter, to the effect that "The undersigned has read, understood and accepted all provisions, terms and conditions of this proposal" and "The bidder acknowledges and accepts all terms and conditions included in the RFP," respectively, would the State permit our firm to acknowledge and accept all terms and conditions included in the RFP, subject to any specific objection or change that is noted in our RFP response? We note that Section 3.1.6 provides: "Any objections or requested changes to the standard form language must be provided with the bid . . ."

Answer: The State acknowledges that the bidder's acceptance of the terms and conditions of the RFP is subject to the bidder's expressed exceptions noted in the RFP response. Please read section 3.1.11 carefully.

35. In Attachment A – Standard Contract Provisions, with respect to Section 6, Amendment, would the State be open to making the amendment provisions mutual?

Answer: The language in section 6 is already mutual. It does not permit a change unless numbered and signed by the State and Contractor.

36. In Attachment C – Standard State Contract Provisions for Contracts and Grants, with respect to Section 6, Independence, Liability, would the State be willing to negotiate the liability provisions? For example, would the State be willing to accept a gross negligence standard of care? Also, in this section,

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"Washington Superior Court" is referenced. Is this the Washington County Superior Court, which is located in Montpelier, Vermont?

Answer:

- A. The State will not accept a gross negligence standard of care. See answer to question #22.*
- B. The language of Attachment C which references the superior court will be changed to read, "Superior Court of the State of Vermont, Washington County Division."*

37. In Attachment C – Standard State Contract Provisions for Contracts and Grants, with respect to section 7, Insurance, if our firm does not have offices in the State of Vermont, is the Workers Compensation provision indicating that "...the Party shall carry workers' compensation insurance in accordance with all the laws of the State of Vermont" applicable? Additionally, is the State open to insurance terms that would not name the State of Vermont and its officers and employees as additional insureds?

Answer:

- A. The State will not advise on the applicability of State law to the vendor. The Workers Compensation provision remains applicable, but may not require the vendor to carry such insurance. We recommend that the vendor consult with counsel for advice on this matter.*
- B. The State is not open to liability insurance terms that would not name the State of Vermont and its officers and employees as additional insureds. The State will not require that the State be so named on E&O insurance.*

38. In Attachment C – Standard State Contract Provisions for Contracts and Grants, can the State confirm that section 9, Requirement to Have a Single Audit, is not applicable in this instance with respect to the RFP for Stable Value Investment Management Services?

Answer: This contract provision only applies if the contract is federally funded. The contract proposed for these services is not federally funded.

39. In Attachment C – Standard State Contract Provisions for Contracts and Grants, with respect to Section 11, Fair Employment Practices and Americans with Disabilities Act, if our firm does not have offices in the State of Vermont, would our firm's compliance with the Americans with Disabilities Act be sufficient?

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Answer: See answer to question #37(A).

40. In Attachment E – Other Provisions, with respect to the Professional Liability Insurance section, are these terms in addition to those insurance coverage limits provided in Section 7, Insurance, in Attachment C – Standard State Contract Provisions for Contracts and Grants?

Answer: Yes

41. In Attachment B – Confidentiality Agreement, with respect to sections 2 and 3 of the Confidentiality Agreement, would the State agree to a carve out that would permit disclosure of confidential information to the extent legally required (for example, in response to a subpoena, interrogatories, or a regulatory examination request)? Additionally, with respect to section 4 of the Confidentiality Agreement, would the State agree that a manager could retain copies of any confidential information (subject at all times to a confidentiality obligation) to the extent necessary for the manager to satisfy its obligations under applicable regulatory recordkeeping requirements?

Answer: No. This confidentiality agreement is for purposes of the proposal only.

42. In Attachment A – Standard Contract Provisions, with respect to Section 3, Maximum Amount, this section appears to contemplate a fixed fee. Would the State agree to an asset-based fee for investment management services?

Answer: Attachment A, section 3 contains a face value amount of the contract, which would be calculated based on the bidder's cost proposal.