

**COMMONWEALTH OF VIRGINIA  
DEPARTMENT OF THE TREASURY**

**REQUEST FOR PROPOSALS # CMI 06 – 001**

for

**Master Custody, Securities Lending and Related Services**

**JODY M. WAGNER  
TREASURER OF VIRGINIA**

Tina M. Mizelle, VCO  
Procurement Officer

August 16, 2005

**REQUEST FOR PROPOSALS**  
**# CMI 06-001**

**ISSUE DATE:** August 16, 2005

**TITLE:** Master Custody, Securities Lending and Related Services

**ISSUING AGENCY:** Attn: Tina M. Mizelle VCO, Procurement Officer  
Commonwealth of Virginia  
Department of the Treasury  
P.O. Box 1879  
Richmond, Virginia 23218-1879

**USING AGENCY:** Department of the Treasury and Department of Lottery

Initial Period of Contract: On or before April 1, 2006 through March 31, 2011 with the option to renew for one additional three (3) year period at the option of the Department of the Treasury and in accordance with the terms and conditions noted in the Contract.

Sealed Proposals Will Be Received Until **3:00 p.m. Friday, September 30, 2005**, For Furnishing Master Custody, Securities Lending and Related Services described herein. Offerors' name shall be read aloud.

All Inquiries Shall Be Directed To: Tina Mizelle by phone - (804) 786 - 4741, by fax - (804) 225-3187 or e-mail – [tina.mizelle@trs.virginia.gov](mailto:tina.mizelle@trs.virginia.gov). Written (fax or e-mail) inquiries are preferred.

If Proposals Are Mailed, Mail Directly To Issuing Agency Shown Above, Adding One Line To The Top Of The Address As Follows: Master Custody, Securities Lending and Related Services RFP # CMI 06-001.

If Proposals Are Hand Delivered, Deliver To: Proposals for, Commonwealth of Virginia, Master Custody, Securities Lending and Related Services RFP # CMI 06-001, c/o Department of the Treasury, James Monroe Building - 3rd Floor, 101 North 14th Street, Richmond, Virginia 23219, Attn: Tina M. Mizelle.

In Compliance With This Request For Proposals And To All The Conditions Imposed Therein And Hereby Incorporated By Reference, The Undersigned Offers And Agrees To Furnish Master Custody, Securities Lending and Related Services In Accordance With The Attached Signed Proposal Or As Mutually Agreed Upon By Subsequent Negotiations.

Offeror's Name:	By (Signature in Ink):
Complete Address:	Name (please print) and Title:
	Date:
City/State/Zip:	Federal Identification Number:
Telephone Number:	Facsimile Number:

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## **SECTION I PURPOSE**

The purpose of this Request for Proposals ("RFP") issued by the Department of the Treasury ("Treasury") is to solicit sealed proposals from qualified financial institutions to establish a contract through competitive negotiations for the purchase of Master Custody, Securities Lending and Related Services. The Master Custodian must be able to provide traditional custody, portfolio accounting and securities lending services; fund accounting and daily valuation services for the Local Government Investment Pool ("LGIP"); and LGIP shareholder recordkeeping/transfer agent services. The Master Custodian will also provide performance measurement services and portfolio compliance services for the Treasury's externally managed portfolios.

**Treasury expects to select and contract with one vendor who has the capability to provide all required services as outlined in this RFP. However, Securities Lending Services may be contracted separately at the option of the Commonwealth. Therefore, proposals and pricing should address Master Custody and Related Services together with Securities Lending and separated without Securities Lending.**

While Treasury believes that all of the information presented herein is accurate, Treasury makes no assurances pertaining to the accuracy of furnished data. Furthermore, no representations are made that total assets, asset allocation, account types, transaction volumes or required services will be of a certain size, scope or amount over time.

## SECTION II BACKGROUND

Section 2.2-1807 of the *Code of Virginia* charges the State Treasurer with the custody of all investments and invested funds of the Commonwealth or in possession of the Commonwealth in a fiduciary capacity and with the keeping of the accounts of such investments. The Treasury's existing contract for Master Custody, Securities Lending and Related Services expires March 31, 2006.

### A. ASSET MIX

Treasury has approximately \$8.0 billion in total assets under management and control, all of which are held by the Master Custodian. In addition Treasury provides custody services and a securities lending program for the Department of Lottery ("Lottery"). A brief description of each significant account or group of accounts and a summary of the types of services required follows:

#### 1. General Account

- \$4.5 billion in total assets divided into two pools – the Primary Liquidity Pool and the Total Return Pool. The Primary Liquidity Pool consists of one portfolio managed internally and averages 75% of the general account assets. The Total Return Pool includes six portfolios, all managed externally. Assets fluctuate based on both seasonal and economic cycles. **See Appendix C** for General Account Investment Guidelines.
- All portfolios require custody, monthly portfolio accounting and monthly market valuations. Additionally, the portfolios in the Total Return Pool require monthly performance measurement and portfolio compliance services.
- All portfolios are invested in fixed income securities.
- All securities are available for a securities lending program. Cash collateral from all seven portfolios is combined and reinvested in one separate portfolio by the Master Custodian.

#### 2. Local Government Investment Pool

- \$2.6 billion in total assets managed as a special purpose "2a-7 like" money market fund. The LGIP is rated 'AAAm' by Standard & Poor's (S&P). **See Appendix D** for LGIP Investment Circular.
- Approximately 400 participants and 925 individual accounts.
- Requires custody, fund accounting and shareholder recordkeeping services (transfer agent).
- Reporting requirements:
  - **Monthly** portfolio accounting
  - **Monthly** statements to participants.
  - **Weekly** valuation and reports to permit weekly surveillance reporting to Standard & Poor's.
  - **Daily** fund accounting, Net Asset Value (NAV) calculation, and shareholder record-keeping services.
- Internet access to transfer agent's system for both fund manager and clients.
- Treasury staff actively manages portfolio.
- Consists entirely of U.S. fixed income (money market) securities.
- Assets do not currently participate in the securities lending program.

3. Tobacco Indemnification and Community Revitalization, Tobacco Settlement Financing Corporation Endowment (“TICR TSFC Endowment or the Endowment”)

- Beginning balance of approximately \$400 million. The portfolio is divided into three parts – two externally managed and one managed in house. **See Appendix F** for TICR TSFC Endowment Guidelines.
- All portfolios require custody, monthly portfolio accounting and monthly market valuations. Additionally, all portfolios require monthly performance measurement and monthly portfolio compliance reports.
- All portfolios are invested in fixed income tax-exempt securities.
- Not eligible for securities lending.

4. Trust Accounts

- \$500 million in total assets. 10 portfolios.
- Requires custody, monthly portfolio accounting and monthly market valuation.
- Consists entirely of in U.S. fixed income securities.
- Managed internally on a passive basis.
- Assets are not eligible for the securities lending program.

5. Lottery Account

- \$500 million in assets in one account. Portfolio is managed internally as a passive portfolio by Lottery.
- Monthly accounting and valuation reports provided directly to Lottery.
- Portfolio holds exclusively U.S. Treasury strips.
- All securities available for a securities lending program. Cash collateral must be reinvested in a separate portfolio by the Master Custodian.

B. SERVICES

1. Custody: Custody services are required for all assets. Portfolio accounting and market valuation for all accounts, except the LGIP, are required on a monthly basis. The LGIP requires weekly valuation. The Master Custodian provides a sweep into a STIF fund that conforms to each Fund’s investment guidelines. Information must be available on-line and in a timely manner. While 99% of the assets are currently domestic, provisions must be in place for global custody when needed.
2. Portfolio Accounting: Fully audited portfolio accounting reports must be available on-line by the fifth business day after month-end. In addition, the LGIP requires daily fund accounting and calculation of NAV and reports to meet S&P money market fund reporting requirements.
3. Securities Lending: The General Account and the Lottery Account currently participate in the Master Custodian’s securities lending program. Cash collateral for each account is reinvested by the custodian in a separate account according to guidelines agreed upon by Treasury and the Master Custodian. **See Appendix G** for current cash reinvestment guidelines for securities lending.
4. LGIP Fund Accounting and Daily Valuation: The LGIP requires daily fund accounting and valuation and weekly market valuation. The daily factor must be provided to the transfer agent, meeting their time requirements. Treasury staff requires online access to the fund accounting system including the report-writing module.

5. LGIP Shareholder Recordkeeping Services (Transfer Agent): The LGIP requires daily shareholder recordkeeping services for approximately 400 participants and 925 accounts. The Transfer Agent will maintain records for each shareholder including historical information for a minimum of 3 years. On a daily basis the Transfer Agent will record all shareholder transactions, update each account's accrual and perform a daily reconciliation with the Fund Accountant. The Transfer Agent will declare and reinvest the monthly dividend, produce and mail individual monthly statements, and provide Treasury with a searchable CD containing copies of all statements. Internet access must be provided to enable Treasury staff to view all accounts and to the individual shareholders to enable them to view their account(s). All shareholder communication, wire transfer records, and redemption wires are maintained or performed by LGIP staff, **not** the Transfer Agent. The Transfer Agent does not have any contact with the individual shareholders. All shareholder communication and individual purchase and redemption wires flow through Treasury's bank account. A net wire is executed between the fund and the Master Custodian. Check writing is **not** permitted.

Treasury maintains an internal database of all account information, authorized parties, redemption information, wire transfer information, etc. Treasury provides all participant contact, manages the portfolio, executes wire transfers, provides daily settlement for both the investment and the participant sides of the fund and forwards all transactions to the current custodian's transfer agent, Bisys, for recordkeeping.

6. Performance Measurement: Monthly and historical performance measurement information versus individual account benchmarks shall be provided to Treasury and to any designated third party as requested by Treasury. This is required for the six General Account and three TCR TSFC Endowment accounts that are externally managed.
7. Compliance Monitoring: Monthly compliance monitoring on selected accounts, primarily externally managed accounts, shall be provided to Treasury, on-line.
8. Information System (IS) Services: Treasury utilizes on-line/internet services and systems for cash forecasting, transaction verification, portfolios, reports, LGIP fund accounting, LGIP shareholder records, compliance, performance and securities lending information. Reliability, flexibility and ease of use of these capabilities are attributes that will be valued highly by Treasury.

### SECTION III STATEMENT OF NEEDS

The successful Contractor shall provide the following services:

1. Custody and Portfolio Accounting Services.

- a. The Contractor shall provide for both domestic and global custody for all assets under the control of the State Treasurer.
- b. The Contractor shall establish a separate custody account for each portfolio. Fully audited accounting and market valuation shall be available by the fifth business day of the following month. The LGIP requires weekly market valuation according to the requirements of a Standard & Poor's rated money market fund. All monthly and fiscal end of year custody reports shall provide information required by GASB 3 and GASB 40 Statements concerning deposit and investment risk disclosure. Provide sample copies of custody and accounting reports using fixed income securities – not equities. All accounting reports shall be available on-line and certain accounting reports must be available in hard copy. Statement data shall also be downloadable to Excel format.
- c. The Contractor shall provide a registered STIF fund that conforms to each Fund's investment guidelines. Some funds require a 'AAAm' rated STIF fund. Provide a list of available STIF funds including performance information, all fee information, and cut-off times for transactions. Indicate which funds are rated and by whom.
- d. The Contractor shall provide investment accounting information based on original cost, current book, and market value. Provide copies of reports showing this.
- e. The Contractor shall provide accounting reports reflecting maturity distributions, assets by type, average maturity or duration, amortizations, accretions, credit ratings, etc. Provide samples of available statistical reports. Provide reports reflecting various types of short-term and/or money market securities.
- f. The Contractor shall provide cash flow information and projections for each account on a forward basis. This information shall project forward for a minimum of one week. Provide copies of these reports.
- g. The Contractor shall provide wire transfer services for each custody account. Provide information concerning requirements for transmitting wire transfer information and deadlines for same day execution.
- h. The Contractor shall provide for mostly same day or cash trades for all accounts managed by Treasury. Provide information concerning transmission of same day trade information.

2. Securities Lending Services.

- a. The Contractor shall provide a turn-key securities lending program for the General Account (both internally and externally managed portfolios) and the Lottery Account. Other accounts may be added at a future date. Provide information about your securities lending program and how it can best serve the Department of Treasury. The securities lending program is required to be transparent to the portfolio management function. Indemnification against broker default must be included. Include security recall deadlines for securities sold that are out on loan. Include information indicating percentage of bonds borrowed in your typical program. Treasury reserves the right to award the Securities Lending portion of this RFP in a separately negotiated contract.

- b. The Contractor shall provide a separate reinvestment account for the General Account cash collateral and for the Lottery cash collateral. Discuss your ability to provide these accounts.
- c. The Contractor shall provide by the fifth business day of the following month standard monthly and fiscal year-end accounting reports for the securities lending program that meet the reporting requirements of GASB 28 (Accounting and Financial Reporting for Securities Lending Transactions). Provide copies of sample reports.
- d. **See Appendix F** for a list of current portfolio holdings for the seven General Account portfolios and the Lottery portfolio. **See Appendix G** for a copy of our current cash collateral investment guidelines. Prepare detailed annual revenue projections using this information.
- e. The Contractor shall provide management and/or analytical lending reports on a monthly and fiscal year-end basis. Provide copies of sample reports.

3. LGIP Fund Accounting and Daily Valuation Services.

- a. The Contractor shall provide daily fund accounting, valuation and NAV calculation. Discuss your ability and experience in providing this service.
- b. The Contractor shall determine the daily yield factor and provide it to the transfer agent/record keeper, meeting the time requirement for daily processing. Discuss.
- c. The Contractor shall be able to accommodate both floating rate and variable rate security calculations.
- d. The Contractor shall provide online/real-time access to the fund accounting system and reports. Provide sample reports.
- e. The Contractor shall provide monthly fund accounting reports in hard copy by the fifth business day.
- f. The LGIP is rated ‘AAAm’ by S&P. Treasury requires access to an array of fund accounting reports providing the necessary reporting information in a format usable by Treasury to assist in preparation of the weekly portfolio monitoring and surveillance reporting required by S&P. This includes but is not limited to:

- 1. Daily Weighted Average Maturity
- 2. Actual 7-day and 30-day yields
- 3. Net assets value per share
- 4. Net assets
- 5. Gross assets
- 6. Daily purchase and redemption totals
- 7. Security types as % of gross assets
- 8. Total outstanding shares
- 9. S&P short-term ratings as a % of gross assets
- 10. Maturity Distribution as a % of gross assets
- 11. Weekly market valuation.

- 1. Reports must be available within 5 calendar days of reporting date. At a minimum the report must include
  - a. CUSIP
  - b. security description
  - c. par value
  - d. amortized cost
  - e. market value

- f. unrealized gain/loss
- g. net receivable/payables
- h. net assets
- i. # of units
- j. net assets per share (NAV)

Discuss your ability to provide these reports and your ability to meet the reporting deadlines. Provide sample reports that are currently in production.

- g. The LGIP requires daily and monthly reconciliation between the fund accountant and the transfer agent. Discuss how this will be accomplished.

#### 4. LGIP Shareholder Recordkeeping Services (Transfer Agent).

- a. The Contractor shall provide daily shareholder recordkeeping services for approximately 400 participants and 925 accounts. The Transfer Agent will maintain records for each shareholder including historical information for a minimum of 3 years; record all shareholder transactions; update each account's accrual and perform a daily reconciliation with the Fund Accountant. The Transfer Agent does not have any contact with the clients. Treasury staff handles all client contact and all records related to authorized callers and Treasury maintains account redemption information. The Transfer Agent basically provides recordkeeping services. A net wire is executed between the Fund and the Master Custodian. Discuss your ability to provide Transfer Agent services.
- b. The Transfer Agent must have the ability to open and fund an account on a same day basis and the ability to close and pay out an account on the same day. Discuss your systems' ability to do this.
- c. The Transfer Agent will declare and reinvest the monthly dividend, produce and mail individual monthly statements, and provide Treasury with a searchable CD containing copies of all statements. Client statement abilities must include the following requirements:
  - 1. Ability to link and roll up accounts owned by same client.
  - 2. Ability to provide statements to additional addresses.
  - 3. Ability to provide "as needed" additional information on the statement such as yields or notices.

Discuss your ability to perform these tasks and meet required deadlines. Provide sample client statements.

- d. The Contractor shall provide internet access to view client accounts. The access must be provided to Treasury staff as well as to the shareholders individually.
- e. The Contractor shall provide a fiscal year end report, in Excel format, listing all shareholder account transactions for every day of the previous fiscal year, electronically.
- f. The Contractor shall provide monthly processing statistical reports.

#### 5. Performance Measurement and Compliance Monitoring Services

- a. The Contractor shall provide performance measurement reports to Treasury and to our outside consultant on a monthly basis for all externally managed portfolios. Provide sample reports. These fully audited reports shall include rate of return and benchmark comparisons information for each externally managed portfolio in the General Account and the TICR TSFC Endowment account. Also, the same information shall be provided for each sub-group in the General Account Total Return Pool and for the Total Return Pool.

- b. The Contractor shall provide compliance monitoring services for all externally managed portfolios. Discuss your experience and abilities in providing these services. The investment guidelines for the General Account (externally managed portfolio) and the TICR TSFC Endowment are the compliance guidelines that require monitoring. **See Appendix C & E** for investment guidelines. Provide sample reports that are actually in production. Give details concerning your ability to “drill-down” in evaluating compliance issues. Compliance would normally be on a monthly basis, but may be more often, if requested.

6. Information System Services

- a. The Contractor shall provide on-line/internet services and systems for all services outlined in this SECTION III STATEMENT OF NEEDS. This includes but is not limited to, cash forecasting, transaction verification, portfolios, reports, LGIP fund accounting, LGIP shareholder records, performance measurement and compliance monitoring and securities lending information. These services must be reliable and as appropriate on a real time basis. These reports should be downloadable to Excel (Treasury currently uses version 2000). Discuss your ability to provide these services as requested.
- b. The Contractor shall provide account history for at least three years. Book value (cost), current book value, and market value should be available for all assets. Transaction detail should be available within one day of settlement date. Discuss your ability to provide this service.

## SECTION IV PROPOSAL PREPARATION AND SUBMISSION REQUIREMENTS

### A. GENERAL REQUIREMENTS:

#### 1. RFP Response:

- a. Number of Copies. In order to be considered for selection, Offerors must submit a complete response to this RFP. One (1) original, so marked, and six (6) copies, so marked, of each proposal must be submitted to the Department of the Treasury. Additional copies shall be provided upon request.

#### 2. Proposal Preparation:

- a. Submission of Materials. An authorized representative of the Offeror shall sign proposals. All information requested should be submitted. Failure to submit all information requested may result in the Commonwealth requiring prompt submission of missing information and/or giving a lower evaluation of the proposal. The Commonwealth may reject proposals, which are substantially incomplete or lack key information. Mandatory requirements are those required by law or regulation or are such that they cannot be waived and are not subject to negotiation.
- b. Small, Women-Owned, and Minority-Owned Business Reports. All information requested by this RFP on the ownership, utilization and planned involvement of small businesses, women-owned businesses, and minority-owned businesses shall be submitted. If an offeror fails to submit all information requested, the Commonwealth may require prompt submission of missing information after the receipt of the vendor proposals. (See **Appendix B**.)
- c. Clarity of Proposals. Proposals should be prepared simply and economically, providing a straightforward, concise description of capabilities to satisfy the requirements of the RFP. Emphasis should be placed on completeness and clarity of content.
- d. Organization of Proposal. Proposals should be organized in the order in which the requirements are presented in the RFP as noted in SECTION IV B. All pages of the proposal should be numbered. Each paragraph in the proposal should reference the paragraph number of the corresponding section of the RFP. It is also helpful to cite the paragraph number, sub-letter, and repeat the text of the requirement as it appears in the RFP. If a response covers more than one page, the paragraph number and sub-letter should be repeated at the top of the next page. Information, which the Offeror desires to present, that does not fall within any of the requirements of the RFP should be inserted at an appropriate place or be attached at the end of the proposal and designated as additional material. Proposals that are not organized in this manner risk elimination from consideration if the evaluators are unable to find where the RFP requirements are specifically addressed.
- e. Single Volume. Each copy of the proposal should be bound or contained in a single volume where practical. All documentation submitted with the proposal should be contained in that single volume.
- f. Ownership of Materials. Ownership of all data, materials and documentation originated and prepared for the Commonwealth pursuant to the RFP shall belong exclusively to the Commonwealth and be subject to public inspection in accordance with the Virginia Freedom of Information Act. Trade secrets or proprietary information submitted by an Offeror shall not be subject to public disclosure under the Virginia Freedom of Information Act; however, the Offeror shall invoke the protection of Section 2.2-4342F of the *Code of Virginia*, in writing, either before or at the time the data or other material is submitted. The written notice shall specifically identify the data or materials to be protected and state the reasons why protection is necessary. The proprietary or trade secret

material submitted shall be identified by some distinct method such as highlighting or underlining and must indicate only the specific words, figures, or paragraphs that constitute trade secret or proprietary information. **THE CLASSIFICATION OF AN ENTIRE PROPOSAL DOCUMENT, LINE ITEM PRICES AND/OR TOTAL PROPOSAL PRICES AS PROPRIETARY OR TRADE SECRETS IS NOT ACCEPTABLE AND MAY RESULT IN THE REJECTION OF THE PROPOSAL.**

3. Oral Presentation: Offerors who submit a proposal in response to this RFP may be required to give an oral presentation of their proposal to a designated committee of the Commonwealth. This provides an opportunity for the Offeror to clarify or elaborate on the proposal. This is a fact finding and explanation session only and does not include negotiation. The Commonwealth will schedule the time and location of these presentations. Oral presentations are an option of the Commonwealth and may or may not be conducted.

#### B. SPECIFIC REQUIREMENTS:

Proposals should be as thorough and detailed as possible so that the Treasury may properly evaluate your capabilities to provide the required services. Offerors are required to answer the following questions or provide the requested information, separated by tabs within the proposal, as a complete proposal:

TAB 1. The complete RFP (Original Only), the RFP cover sheet and addenda, if any, filled out as required and signed.

TAB 2. General Qualifications:

#### **Supplier Profile – Please answer each question or provide the requested information.**

1. What is the ownership structure of your organization?
2. What was the value of shareholders' equity for the entity ultimately financially responsible for your custody business as of 6/30/05?
3. Specify this entity's credit rating (long-term debt) for Moody's, S&P and Fitch as of 6/30/05.
4. What was the date of your organization's last rating change from each of these credit rating firms? Specify if you were upgraded or downgraded.
5. What percentage of your parent firm's total revenues did fees from master trust, Master Custody, Securities Lending and Related Services represent in 2004 (excluding investment management)?
6. Who are your auditors and where are they located? How often do they audit the systems supporting master trust/custody clients? What were the key findings from the most recent reviews?
7. List types of insurance carried, name of carrier(s), and deductibles for calendar year 2005 policies. Address whether or not insurance policies cover situations where the bank's internal controls fail. What risks are not covered by these policies?
8. Provide a brief explanation and indicate the current status of any business litigation or other proceedings related to your organization's master trust/custody area over the past five years.

9. Has your organization been involved in any mergers or acquisitions during the past three years (for master trust/custody or related services)? If yes, provide details regarding size and scope of transactions and their effect, if any, on your competitive position.
10. What was the total dollar value of master custody/trust assets held as of 6/30/05? What dollar amount are public fund assets?
11. Provide a list of your top 15 public fund clients ranked by size of assets under custody. Indicate if these clients are retirement fund, treasury funds, etc.
12. How many public fund clients do you currently serve in the following categories: total, \$5 - \$10 billion, over \$10 billion?
13. Chronologically list all new master custody/trust clients gained or lost during the last five years (assets of \$5 billion or more).
14. Provide five references whose requirements are most similar to the Treasury's and who utilize the services required in this RFP. Indicate the following: organization name, services provided, \$ assets, contact name and phone number, and year the relationship began.
15. Would the Treasury relationship management be serviced out of your public fund group, or out of a middle market division of which public funds is one segment? Explain.
16. Where would the Treasury functional account management be centered?
17. Provide organizational charts identifying key personnel for all functional and relationship management related areas that would be involved in servicing the Treasury account.
18. Provide an overview of your approach to client service for the Treasury. Include team structure, experience of personnel, number of other client relationships for proposed relationship manager, and integration/separation of responsibilities among team members. Would the Treasury have a single point of contact or multiple contacts? Explain how this would work.
19. Who are the individuals in the following positions and how long have they been in these positions at your organization: proposed relationship manager for the Treasury, proposed day-to-day contact for the Treasury, back-up day-to-day contact for the Treasury, director of client service for public fund market.
20. Provide biographies for proposed client service personnel for this relationship.
21. Where will the proposed client service team for the Treasury be located?
22. Provide an overview of your bank-wide technology plans for the next three years, with specific emphasis on new systems/features for master custody/trust clients.
23. Do you sponsor user groups or educational programs for clients? If yes, what type(s) and how often were they held in during the past two years? Provide current program description and cost for educational programs.
24. Provide a copy of 2004 Annual Report and most recent SAS 70 Report.

25. What distinguishes your organization from other leading custodians serving public funds?
26. Discuss your approach to transition at the end of a contract. Are you willing to support the Commonwealth during a transition period at the end of a contract if necessary?

TAB 3. Specific plans for providing the proposed goods/services including:

1. Address your financial institution’s ability to provide the services noted in SECTION III STATEMENT OF NEEDS. Please restate each requirement and discuss whether or not you can provide the service, how you will provide the service or the extent to which you can provide the service and alternatives you would recommend in addition to or in lieu of the stated objective, and reference any reports provided by your system.
2. The Contractor shall meet the REPORTING AND DELIVERY REQUIREMENTS as outlined in SECTION VI. Please restate each requirement and discuss whether or not you can provide the service; how you will provide the service or the extent to which you can provide the service; any alternatives you recommend in addition to or in lieu of the stated objective. Also, answer each question individually.
3. Provide a detailed implementation schedule indicating tasks and dates for completion of each. Assume a contract starting date of April 1, 2006 (everything must be in place prior to this date).
4. Provide a well-defined systems backup plan for all services. Include your provision for hardware, software and communications backup. Describe your disaster recovery plan. Identify your “hot sites” for emergency procedures.
5. Include copies of any agreements which the Commonwealth would be expected to sign if your institution is awarded this contract.

TAB 4. Proposed Price:

1. Complete the price schedule in SECTION X showing the cost for each service listed as well as the cost for any service not listed.
2. Discuss any transition costs related to establishing the services requested.
3. Discuss any creative pricing or payment options, which you can provide.

TAB 5. Creative solutions and alternative suggestions:

1. All offerors are encouraged to be as creative as possible in responding to this RFP. Based on your review of the background information, specific needs and requirements, and pertinent Sections of the *Code of Virginia* discuss any creative approaches to this service which have not been specifically requested or which would enhance efficiency and/or reduce costs.

TAB 6. Small, Women-Owned, and Minority-Owned Business Participation:

1. The offeror must submit three sets of data for small business, women-owned business minority-owned business: 1) ownership, 2) utilization of small, women-owned and minority-owned businesses for the most recent 12 months, and 3) planned involvement of small businesses, women-owned businesses and minority owned businesses on the current procurement. **Appendix B** contains the format for providing this information.

## SECTION V EVALUATION AND AWARD CRITERIA

- A. All proposals received will be reviewed and evaluated by a Selection Committee. The Committee will recommend proposals, which most closely meet the requirements of the RFP. The following will be used in making the selection:
1. Offeror's Qualifications -- This criterion includes the ability of the Offeror to meet the terms of the RFP, the quality controls in place to ensure a high-quality service, and any special processes that increase the Offeror's ability to perform the contract. (Weighted at 30%)
  2. Soundness of Approach -- Emphasis here is on the techniques for providing the services requested, and on the Offeror's capability to deliver the desired services on schedule. (Weighted at 35%)
  3. Pricing -- Charges should be broken down as outlined in SECTION X, PRICING SCHEDULE. While this area will be weighted heavily, it will not be the primary deciding factor in the selection process. (Weighted at 25%)
  4. Creativity -- The Commonwealth is interested in creative and innovative responses to this RFP. Consideration will be given to suggested alternatives or additional services offered which may not be specifically requested. (Weighted at 5%)
  5. Participation of Small, Women-Owned, and Minority-Owned Businesses -- Emphasis is on the past, current, and planned utilization of businesses in the three classes identified. (Weighted at 5%)
- B. Award of Contract: Selection shall be made of two or more Offerors deemed to be fully qualified and best suited among those submitting proposals on the basis of the evaluation factors included in the RFP, including price, if so stated in the RFP. Negotiations shall be conducted with the Offerors so selected. Price shall be considered, but need not be the sole determining factor. After negotiations have been conducted with each Offeror so selected, the issuing agency shall select the Offeror that, in its opinion, has made the best proposal, and shall award the Contract to that Offeror. The Commonwealth may cancel this RFP or reject proposals at any time prior to an award, and is not required to furnish a statement of the reason why a particular proposal was not deemed to be the most advantageous (Section 2.2-4359D, *Code of Virginia*). Should the Commonwealth determine in writing and in its sole discretion that only one Offeror is fully qualified, or that one Offeror is clearly more highly qualified than the others under consideration, a Contract may be negotiated and awarded to that Offeror. The award document will be a Contract incorporating by references all of the requirements, terms and conditions of the solicitation and the Contractor's proposal as negotiated. **See Appendix A.**

## **SECTION VI REPORTING AND DELIVERY REQUIREMENTS**

### **CUSTODY**

The Contractor shall provide the custody services as outline in SECTION III STATEMENT OF NEEDS.

#### **Custody Questions (domestic and foreign):**

1. Identify the depositories, book-entry systems, and any sub-custodial agents, both domestic and foreign, utilized by your bank and indicate if the relationship is direct or indirect.
2. Describe instructions and deadlines necessary to make delivery or take receipt of all types of securities.
3. Do you have any specific requirements for submission of trade tickets and wire transfer request? Do you accept fax transmissions? Do you accept phone request followed by fax transmission?
4. During what hours are your settlement and client service personnel available to be reached via phone?
5. What procedures and controls are utilized for monitoring and reporting of failed trades? How and when is the client notified?
6. Describe the circumstances in which fail float is provided to the client and terms that apply.
7. Do you offer contractual settlement for securities? Under what arrangements?
8. Provide detailed schedules showing when proceeds (principal, interest, dividends) and pay-downs are credited to the fund's account for each type of security.
9. What are your primary sources of income collection information? Describe your procedures and controls for monitoring and collecting past due income.
10. What pricing services do you use for each type of security, both domestic and foreign?
11. What service(s) do you utilize for corporate actions? What procedures and control points are used to monitor outstanding corporate actions?
12. What is your policy for forwarding corporate action information to investment managers? Are you responsible for initiating this process or is the manager? Who is liable if a corporate action is missed? What is your record on prompt payments and corporate actions? Which officer is responsible for communicating corporate action information to the client?
13. What support do you provide to client proxy voting monitoring and control efforts?
14. When and how is cash availability reported to the client? Is this process fully automated? Describe the full range of cash projection services you offer on-line.
15. Can you sweep managers' uninvested cash into a STIF fund? Is there a charge for this service?

16. Explain how wire transfers are received and processed. Do you have a centralized area dedicated to this function for U.S. and foreign wires? If yes, how does information flow between this area and the account team servicing the Treasury?
17. What capabilities do you offer in the area of portfolio liquidation services? What type of verification service do you provide that would ensure that transactions are completed at market rates? Are there any types of transactions that you cannot facilitate?
18. Does your custody system and fund accounting system provide the ability to subdivide cash equivalents by security type? If yes, what type(s) of sorts are available?
19. Describe in detail your capabilities for providing tax reclaim services. What systems do you use and what reports do you typically provide each month?
20. Do you offer guaranteed payment of income and dividends? If yes, list countries and schedules where available.

### **PORTFOLIO ACCOUNTING:**

The Contractor shall provide the portfolio accounting services as outlines in SECTION III STATEMENT OF NEEDS.

#### **Portfolio Accounting Questions:**

1. What system do you use for portfolio accounting? How many years have you been using this system? What enhancements do you expect to make to it in future?
2. Do you have any accounting systems conversions planned for the next 1-3 years? If yes, for which systems?
3. Describe the specific quality control procedures and control points inherent in your portfolio accounting process. What specific auditing techniques do you use?
4. How soon after the close of a month are complete sets of fully audited portfolio reports delivered to the client in hard copy format?
5. Do you have CD-ROM reporting capabilities for portfolio accounting reports?
6. Can you provide book value and accrual basis accounting? Can you provide trade date and/or settlement date reporting?
7. Describe your methodology for accounting for mortgage-backed securities.
8. Describe your procedures and control points for identifying "abnormal" prices. What tolerance levels are used for the various fixed income security types?
9. What are your procedures when "abnormal" prices are received? Under what circumstance would the Treasury be notified?

10. Describe your procedures and control points for reconciling custodian records with investment manager records. Which party is ultimately responsible for completing this task?

## **SECURITIES LENDING**

The Contractor shall provide the security lending services as outlined in SECTION III STATEMENT OF NEEDS.

### **Securities Lending Questions:**

1. In total, how many clients currently participate in your securities lending program? What percentage of your client base do they represent? What was the value of client securities available for loan in your program by security type at 6/30/05?
2. How many participating securities lending clients are public funds? What is the total dollar amount of assets available for loan by public fund clients?
3. What was the average percentage of securities on loan and corresponding spreads, by security type, for the last six months? (Assume cash collateral is reinvested in A1/P1 pool).
4. What types of collateral do you accept? What percentage of over collateralization is required for each type? Describe the procedure and frequency of marking to market for all types of securities.
5. How are recalls and income collections handled for securities out on loan? Have you ever experienced a situation in which you were unable to reclaim a client's lent security? If yes, describe the problem and the steps taken to rectify it.
6. Describe your policy for monitoring counter-party credit. Provide a list of brokers to whom you presently lend securities and specify credit limits.
7. Do you offer indemnification for broker default? If yes, provide the exact wording from your contract. Describe any and all possible scenarios in which the indemnity wouldn't make a participating lender fully whole should a borrower default.
8. Provide all information concerning broker rebates that would be applicable to separately managed investment accounts.
9. Have any of your reinvestment pools had the NAV drop below \$.9975 during the last five years? If yes, describe what happened, when it happened, how it happened, and what policies you have implemented to prevent a similar occurrence.
10. During the last five years, have you ever had a situation in which you purchased (on behalf of an individual client or STIF pool) a security issued by a company (or its parent) that went into default? If yes, describe the specific details surrounding this circumstance and explain your course of action.
11. Describe the allocation system used in determining which clients' securities to lend. Do you have more than one queue? In what situations do exceptions occur? What is your policy if and when an exception occurs?
12. Does your securities lending program include a bonds borrowed component? Why or why not?

13. Who currently runs your securities lending group? Provide a summary of this individual's experience, including length of time with your organization, years in industry, and previous employment history.
14. Provide biographies of key personnel involved in both the securities lending function and the cash reinvestment function.
15. In which cities and/or countries do you currently operate lending desks?
16. What systems, procedures and control points do you use to ensure that cash collateral is managed to conform with investment policy, and for matching up duration of loans to duration of purchases made with cash collateral?
17. What is your policy if your cash investment group buys an instrument that drops below the credit parameters set forth in the investment guidelines? Explain.
18. Who are the auditors for your securities lending department and how frequently do audits occur?
19. Explain the key differences, from a risk standpoint, for a U.S. client lending foreign securities (versus domestic securities)?
20. What differentiates your institution as a securities lending agent?
21. Do you have any clients who use third party security lending agents? If so, give details.

### **LGIP FUND ACCOUNTING AND DAILY VALUATION**

The Contractor shall provide the LGIP Fund Accounting and Daily Valuation Services as outlined in SECTION III STATEMENT OF NEEDS.

#### **LGIP Fund Accounting and Daily Valuation Questions:**

1. What system do you use for daily NAV accounting? Is this system approved for SEC registered funds?
2. How many years have you been using this system? What enhancements do you expect to make to it in the next 1-3 years?
3. Do you have any fund accounting systems conversions planned for the next 1-3 years? If yes, for which systems?
4. When is the daily factor and NAV available?
5. Describe the specific quality control procedures and control points inherent in your NAV accounting process. What specific auditing techniques do you use? If your firm makes a fund accounting related mistake, which significantly impacts the fund, what are your procedures to rectify the situation?
6. Discuss control procedures for floating rate and variable rate securities.
7. Describe your procedures and control points for identifying "abnormal" prices. What tolerance levels are used for the various fixed income security types?

8. What are your procedures when “abnormal” prices are received? Under what circumstance would the Treasury be notified?
9. Describe your procedures and control points for reconciling transfer agent data with accounting information?
10. Do you perform fund accounting and daily valuation for any Standard & Poor’s rated money market funds? If yes, describe your involvement in the weekly surveillance reporting process.
11. Describe your disaster recovery plans. How often is this plan tested?

**LGIP SHAREHOLDER RECORDKEEPING SERVICES**

The Contractor shall provide the LGIP shareholder recordkeeping services as outlined in SECTION III STATEMENT OF NEEDS.

**LGIP Shareholder Recordkeeping Services Questions:**

1. What division, entity or affiliate will provide services to the Treasury for this mandate?
2. How long has this entity (“you”) been providing transfer agency services?
3. How many clients do you currently serve on a full service basis? On a partial services basis?
4. How many shareholder accounts are currently maintained on your system?
5. How many clients do you have in the following size groups: under 1,000 shareholders/participants, 1,000 - 10,000, over 10,000?
6. Where is your client access support group located?
7. Describe your overall systems environment, including any future plans.
8. Describe your disaster recovery plan. How often is this plan tested?
9. Describe how errors affecting account balances are resolved.
10. Do you have a centralized quality control group that reviews and approves transactions and statements?
11. Describe any ongoing quality and productivity programs. Provide a list of established standards and performance against those standards.
12. What types of safeguards are built into your system to guarantee client confidentiality?
13. Are any transfer agent functions sub-contracted to third parties? If yes, describe arrangements in detail.
14. Describe any training programs that you would provide for Treasury staff.
15. Can you create consolidated statements for participants that want them? What limitations exist in this area?

16. What turnaround time do you require to produce and mail monthly participant statements after month end?
17. Does the shareholder system have report writing capabilities? If so, what reports are available.

### **PERFORMANCE MEASUREMENT**

The Contractor shall provide the performance management services as outlined in SECTION III STATEMENT OF NEEDS.

#### **Performance Measurement Questions:**

1. For how many clients do you perform performance measurement services? How many portfolios are represented and what is the approximate value of these assets?
2. How soon after month-end are fully audited performance measurement reports available?
3. How many professionals work in your performance measurement group? Discuss any turnover that you have experienced in this area.
4. Can custom benchmarks be used on your performance measurement system?
5. What reports are typically provided in your basic monthly service package?
6. Can performance calculations be performed both before and after fees?
7. Can clients obtain performance measurement information for the portfolios on an as needed basis, not necessarily at month-end?
8. What are your capabilities / limitations for accepting historical monthly market values and rates of return for individual managers / asset classes in order to calculate historical returns?

### **COMPLIANCE MONITORING**

The Contractor shall provide compliance monitoring services as outlined in SECTION III STATEMENT OF NEEDS.

#### **Compliance Monitoring Questions:**

1. How long have you been offering compliance monitoring?
2. How many clients do you perform this service for? What is the average size of their portfolios?
3. Is the compliance monitoring performed daily, monthly, quarterly?

### **INFORMATION SYSTEM SERVICES**

The Contractor shall provide all information system services as outlined in SECTION III STATEMENT OF NEEDS.

**Information System Services Questions:**

1. Describe the functionality inherent in your workstation product and summarize the key advantages afforded to clients such as the Treasury.
2. Does your system offer clients the opportunity to customize reports on-line (without intervention by a Bank employee)? If yes, in which areas is this capability fully available (e.g. custody, portfolio accounting, performance measurement compliance monitoring, etc.)?
3. What enhancements do you expect to make to your on-line system during the next 1-3 years? Describe the feature(s) and indicate the order in which you plan to implement them.
4. What is the real experience MTBF (mean time between failures) of your on-line system? If your communications gateway(s) fails, what alternative communication methods can the Treasury use to access its information?
5. What support services and on-site training do you make available to the client during the start-up phase and on an on-going basis?
6. Describe your system's backup and disaster recovery procedures.
7. What are the data retention schedules for the various services as outlined in this RFP?

## SECTION VII GENERAL TERMS AND CONDITIONS

- A. **VENDORS MANUAL:** This solicitation is subject to the provisions of the Commonwealth of Virginia *Vendors Manual* and any changes or revisions thereto, which are hereby incorporated into this Contract in their entirety. The procedure for filing contractual claims is in section 7.19 of the *Vendors Manual*. A copy of the manual is normally available for review at the purchasing office and is accessible on the Internet at [www.dgs.state.va.us/dps](http://www.dgs.state.va.us/dps) under “Manuals.”
- B. **APPLICABLE LAWS AND COURTS:** This solicitation and any resulting Contract shall be governed in all respects by the laws of the Commonwealth of Virginia and any litigation with respect thereto shall be brought in the courts of the Commonwealth. The agency and the contractor are encouraged to resolve any issues in controversy arising from the award of the contract or any contractual dispute using Alternative Dispute Resolution (ADR) procedures (*Code of Virginia, § 2.2-4366*). ADR procedures are described in Chapter 9 of the *Vendors Manual*. The Contractor shall comply with all applicable federal, state and local laws, rules and regulations. Venue shall be in state or federal court located in Richmond, Virginia.
- C. **ANTI-DISCRIMINATION:** By submitting their proposals, offerors certify to the Commonwealth that they will conform to the provisions of the Federal Civil Rights Act of 1964, as amended, as well as the Virginia Fair Employment Contracting Act of 1975, as amended, where applicable, the Virginians With Disabilities Act, the Americans With Disabilities Act and §2.2-4311 of the *Virginia Public Procurement Act*. If the award is made to a faith-based organization, the organization shall not discriminate against any recipient of goods, services, or disbursements made pursuant to the Contract on the basis of the recipient’s religion, religious belief, refusal to participate in a religious practice, or on the basis of race, age, color, gender or national origin and shall be subject to the same rules as other organizations that contract with public bodies to account for the use of the funds provided; however, if the faith-based organization segregates public funds into separate accounts, only the accounts and programs funded with public funds shall be subject to audit by the public body. (*Code of Virginia § 2.2-4343.1E*).

In every Contract over \$10,000 the provisions in 1. and 2. below apply:

1. During the performance of this Contract, the Contractor agrees as follows:
    - a. The contractor will not discriminate against any employee or applicant for employment because of race, religion, color, sex, national origin, or disabilities, except where religion, sex or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the Contractor. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause.
    - b. The Contractor, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, will state that such Contractor is an equal opportunity employer.
    - c. Notices, advertisements and solicitations placed in accordance with federal law, rule or regulation shall be deemed sufficient for the purpose of meeting these requirements.
  2. The Contractor will include the provisions of 1. above in every subcontract or purchase order over \$10,000, so that the provisions will be binding upon each subcontractor or vendor.
- D. **ETHICS IN PUBLIC CONTRACTING:** By submitting their proposals, offerors certify that their proposals are made without collusion or fraud and that they have not offered or received any kickbacks or inducements from any other offeror, supplier, manufacturer or subcontractor in connection with their proposal, and that they have not conferred on any public employee having official responsibility for this procurement transaction any payment, loan, subscription, advance, deposit of money, services or anything of more than nominal value,

present or promised, unless consideration of substantially equal or greater value was exchanged.

- E. IMMIGRATION REFORM AND CONTROL ACT OF 1986: By submitting their proposals, offerors certify that they do not and will not during the performance of this Contract employ illegal alien workers or otherwise violate the provisions of the federal Immigration Reform and Control Act of 1986.
- F. DEBARMENT STATUS: By submitting their proposals, offerors certify that they are not currently debarred by the Commonwealth of Virginia from submitting bids or proposals on contracts by any agency of the Commonwealth of Virginia for the type of goods and/or services covered by this solicitation, nor are they an agent of any person or entity that is currently so debarred.
- G. ANTITRUST: By entering into a Contract, the Contractor conveys, sells, assigns, and transfers to the Commonwealth of Virginia all rights, title and interest in and to all causes of action it may now have or hereafter acquire under the antitrust laws of the United States and the Commonwealth of Virginia, relating to the particular goods or services purchased or acquired by the Commonwealth of Virginia under said Contract.
- H. MANDATORY USE OF STATE FORMS AND TERMS AND CONDITIONS: Failure to submit a proposal on the official state form provided for that purpose shall be a cause for rejection of the proposal. Modification of or additions to any portion of the general terms and conditions of the solicitation may be cause for rejection of the proposal; however, the Commonwealth reserves the right to decide, on a case-by-case basis, in its sole discretion, whether to reject such a proposal.
- I. CLARIFICATION OF TERMS: If any prospective offeror has questions about the specifications or other solicitation documents, the prospective offeror should contact the buyer whose name appears on the face of the solicitation no later than five working days before the due date. Any revisions to the solicitation will be made only by addendum issued by the buyer.
- J. PAYMENT:
  - 1. To Prime Contractor:
    - a. Invoices for items ordered, delivered and accepted shall be submitted by the Contractor directly to the payment address shown on the purchase order/Contract. All invoices shall show the state Contract number and/or purchase order number; social security number (for individual Contractors) or the federal employer identification number (for proprietorships, partnerships, and corporations).
    - b. Any payment terms requiring payment in less than 30 days will be regarded as requiring payment 30 days after invoice or delivery, whichever occurs last. This shall not affect offers of discounts for payment in less than 30 days, however.
    - c. All goods or services provided under this Contract or purchase order, that are to be paid for with public funds, shall be billed by the Contractor at the Contract price, regardless of which public agency is being billed.
    - d. The following shall be deemed to be the date of payment: the date of postmark in all cases where payment is made by mail, or the date of offset when offset proceedings have been instituted as authorized under the Virginia Debt Collection Act.
    - e. **Unreasonable Charges.** Under certain emergency procurements and for most time and material purchases, final job costs cannot be accurately determined at the time orders are placed. In such

cases, Contractors should be put on notice that final payment in full is contingent on a determination of reasonableness with respect to all invoiced charges. Charges, which appear to be unreasonable, will be researched and challenged, and that portion of the invoice held in abeyance until a settlement can be reached. Upon determining that invoiced charges are not reasonable, the Commonwealth shall promptly notify the Contractor, in writing, as to those charges, which it considers unreasonable, and the basis for the determination. A Contractor may not institute legal action unless a settlement cannot be reached within thirty (30) days of notification. The provisions of this section do not relieve an agency of its prompt payment obligations with respect to those charges that are not in dispute (*Code of Virginia*, § 2.2-4363).

2. To Subcontractors:
  - a. A Contractor awarded a Contract under this solicitation is hereby obligated:
    - (1) To pay the subcontractor(s) within seven (7) days of the Contractor's receipt of payment from the Commonwealth for the proportionate share of the payment received for work performed by the subcontractor(s) under the Contract; or
    - (2) To notify the Issuing Agency and the subcontractor(s), in writing, of the Contractor's intention to withhold payment and the reason.
  - b. The Contractor is obligated to pay the subcontractor(s) interest at the rate of one percent per month (unless otherwise provided under the terms of the Contract) on all amounts owed by the Contractor that remain unpaid seven (7) days following receipt of payment from the Commonwealth, except for amounts withheld as stated in (2) above. The date of mailing of any payment by U. S. Mail is deemed to be payment to the addressee. These provisions apply to each sub-tier Contractor performing under the primary Contract. A Contractor's obligation to pay an interest charge to a subcontractor may not be construed to be an obligation of the Commonwealth.
3. Each prime contractor who wins an award in which provision of a SWAM procurement plan is a condition to the award, shall deliver to the contracting agency or institution, on or before request for final payment, evidence and certification of compliance (subject only to insubstantial shortfalls and to shortfalls arising from subcontractor default) with the SWAM procurement plan. Final payment under the contract in question may be withheld until such certification is delivered and, if necessary, confirmed by the agency or institution, or other appropriate penalties may be assessed in lieu of withholding such payment.
- K. PRECEDENCE OF TERMS: The following General Terms and Conditions *VENDORS MANUAL*, *APPLICABLE LAWS AND COURTS*, *ANTI-DISCRIMINATION*, *ETHICS IN PUBLIC CONTRACTING*, *IMMIGRATION REFORM AND CONTROL ACT OF 1986*, *DEBARMENT STATUS*, *ANTITRUST*, *MANDATORY USE OF STATE FORM AND TERMS AND CONDITIONS*, *CLARIFICATION OF TERMS*, *PAYMENT* shall apply in all instances. In the event there is a conflict between any of the other General Terms and Conditions and any Special Terms and Conditions in this solicitation, the Special Terms and Conditions shall apply.
- L. QUALIFICATIONS OF OFFERORS: The Commonwealth may make such reasonable investigations as deemed proper and necessary to determine the ability of the offeror to perform the services/furnish the goods and the offeror shall furnish to the Commonwealth all such information and data for this purpose as may be requested. The Commonwealth reserves the right to inspect offeror's physical facilities prior to

award to satisfy questions regarding the offeror's capabilities. The Commonwealth further reserves the right to reject any proposal if the evidence submitted by, or investigations of, such offeror fails to satisfy the Commonwealth that such offeror is properly qualified to carry out the obligations of the Contract and to provide the services and/or furnish the goods contemplated therein.

- M. TESTING AND INSPECTION: The Commonwealth reserves the right to conduct any test/inspection it may deem advisable to assure goods and services conform to the specifications.
- N. ASSIGNMENT OF CONTRACT: A Contract shall not be assignable by the Contractor in whole or in part without the written consent of the Commonwealth.
- O. CHANGES TO THE CONTRACT: Changes can be made to the Contract in any of the following ways:
1. The parties may agree in writing to modify the scope of the Contract. An increase or decrease in the price of the Contract resulting from such modification shall be agreed to by the parties as a part of their written agreement to modify the scope of the Contract.
  2. The Issuing Agency may order changes within the general scope of the Contract at any time by written notice to the Contractor. Changes within the scope of the Contract include, but are not limited to, things such as services to be performed, the method of packing or shipment, and the place of delivery or installation. The Contractor shall comply with the notice upon receipt. The Contractor shall be compensated for any additional costs incurred as the result of such order and shall give the Issuing Agency a credit for any savings. Said compensation shall be determined by one of the following methods:
    - a. By mutual agreement between the parties in writing; or
    - b. By agreeing upon a unit price or using a unit price set forth in the Contract, if the work to be done can be expressed in units, and the Contractor accounts for the number of units of work performed, subject to the Issuing Agency's right to audit the Contractor's records and/or to determine the correct number of units independently; or
    - c. By ordering the Contractor to proceed with the work and keep a record of all costs incurred and savings realized. A markup for overhead and profit may be allowed if provided by the Contract. The same markup shall be used for determining a decrease in price as the result of savings realized. The Contractor shall present the Issuing Agency with all vouchers and records of expenses incurred and savings realized. The Issuing Agency shall have the right to audit the records of the Contractor, as it deems necessary to determine costs or savings. Any claim for an adjustment in price under this provision must be asserted by written notice to the Issuing Agency within thirty (30) days from the date of receipt of the written order from the Issuing Agency. If the parties fail to agree on an amount of adjustment, the question of an increase or decrease in the Contract price or time for performance shall be resolved in accordance with the procedures for resolving disputes provided by the Disputes Clause of this Contract or, if there is none, in accordance with the disputes provisions of the Commonwealth of Virginia *Vendors Manual*. Neither the existence of a claim nor a dispute resolution process, litigation or any other provision of this Contract shall excuse the Contractor from promptly complying with the changes ordered by the Issuing Agency or with the performance of the Contract generally.

- P. **DEFAULT:** In case of failure to deliver goods or services in accordance with the Contract terms and conditions, the Commonwealth, after due oral or written notice, may procure them from other sources and hold the Contractor responsible for any resulting additional purchase and administrative costs. This remedy shall be in addition to any other remedies that the Commonwealth may have.
- Q. **TAXES:** Sales to the Commonwealth of Virginia are normally exempt from State sales tax. State sales and use tax certificates of exemption, Form ST-12, will be issued upon request. Deliveries against this Contract shall usually be free of Federal excise tax and transportation taxes. The Commonwealth's excise tax exemption registration numbers is 54-73-0076K.
- R. **USE OF BRAND NAMES:** Omitted.
- S. **TRANSPORTATION AND PACKAGING:** Omitted.
- T. **INSURANCE:** By signing and submitting a proposal under this solicitation, the Offeror certifies that if awarded the Contract, it will have the following insurance coverages at the time the Contract is awarded. For construction Contracts, if any subcontractors are involved, the subcontractor will have workers' compensation insurance in accordance with §§ 2.2-4332 and 65.2-800 et seq. of the *Code of Virginia*. The Offeror further certifies that the Contractor and any subcontractors will maintain these insurance coverages during the entire term of the Contract and that all insurance coverages will be provided by insurance companies authorized to sell insurance in Virginia by the Virginia State Corporation Commission.

**INSURANCE COVERAGES AND LIMITS REQUIRED:**

1. Worker's Compensation - Statutory requirements and benefits; require that the Commonwealth of Virginia be added as an additional named insured on Contractor's policy.
  2. Employers Liability - \$100,000.
  3. Commercial General Liability - \$500,000 combined single limit. Commercial General Liability is to include Premises/Operations Liability, Products and Completed Operations Coverage, and Independent Contractor's Liability or Owner's and Contractor's Protective Liability. The Commonwealth of Virginia is to be named as an additional named insured with respect to the services being procured. These coverages are to include Products and Completed Operations Coverage.
  4. Automobile Liability - \$500,000 - Combined single limit. (Only used if motor vehicle is to be used in the Contract.)
- U. **ANNOUNCEMENT OF AWARD:** Upon the award or the announcement of the decision to award a Contract as a result of this solicitation, the Issuing Agency will publicly post such notice on the 3<sup>rd</sup> floor receptionist area, Department of the Treasury, 101 N. 14<sup>th</sup> Street, Richmond, Virginia, the DGS/DPS eVA website [www.eva.state.va.us](http://www.eva.state.va.us) and on the Treasury website at [www.trs.virginia.gov](http://www.trs.virginia.gov) for a minimum of 10 days.
- V. **DRUG-FREE WORKPLACE:** During the performance of this Contract, the Contractor agrees to (i) provide a drug-free workplace for the Contractor's employees; (ii) post in conspicuous places, available to employees and applicants for employment, a statement notifying employees that the unlawful manufacture, sale, distribution, dispensation, possession, or use of a controlled substance or marijuana is prohibited in the Contractor's workplace and specifying the actions that will be taken against employees for violations of such prohibition; (iii) state in all solicitations or advertisements for employees placed by or on behalf of the

Contractor that the Contractor maintains a drug-free workplace; and (iv) include the provisions of the foregoing clauses in every subcontract or purchase order of over \$10,000, so that the provisions will be binding upon each subcontractor or vendor.

For the purposes of this section, “drug-free workplace” means a site for the performance of work done in connection with a specific Contract awarded to a Contractor, the employees of whom are prohibited from engaging in the unlawful manufacture, sale distribution, dispensation, possession or use of any controlled substance or marijuana during the performance of the Contract.

- W. **NONDISCRIMINATION OF CONTRACTORS:** A bidder, offeror, or Contractor shall not be discriminated against in the solicitation or award of this Contract because of race, religion, color, sex, national origin, age, or disability or against faith-based organizations. If the award of this Contract is made to a faith-based organization and an individual, who applies for or receives goods, services, or disbursements provided pursuant to this Contract objects to the religious character of the faith-based organization from which the individual receives or would receive the goods, services or disbursements, the public body shall offer the individual, within a reasonable period of time after the date of his objection, access to equivalent goods, services or disbursements from an alternative provider.
  
- X. **EVA BUSINESS-TO-GOVERNMENT VENDOR REGISTRATION:** The awarded Contractor will be expected to register with the eVA and the Ariba Commerce Services Network Vendor Registration Systems at the following website: [www.eva.state.va.us](http://www.eva.state.va.us) or by calling the eVA Supplier Help Line at 1-866-289-7367. All Contractors desiring to provide goods and/or services to the Commonwealth shall participate in the eVA Internet e-procurement solution either through the eVA Basic Vendor Registration Service (\$25.00) or eVA Premium Vendor Registration Service (\$200.00), and complete the Ariba Commerce Services Network Registration. Treasury will issue a blanket purchase order to the Contractor annually. The Contractor will reference the purchase order number on each invoice submitted to Treasury. The eVA transaction fee will be billed to the Contractor at the point the blanket purchase order is issued. The maximum eVA transaction fee is 1% of each transaction or a maximum of \$500.00 for each transaction, whichever is less. The annual blanket purchase order is considered one transaction; therefore, the maximum eVA transaction fee that will be charged to the Contractor will be \$500.00 annually, for the term of the Contract.

## **SECTION VIII SPECIAL TERMS AND CONDITIONS**

- A. **ADVERTISING:** In the event a Contract is awarded for supplies, equipment, or services resulting from this proposal, no indication of such sales or services to the Department of the Treasury will be used in product literature or advertising. The Contractor shall not state in any of the advertising or product literature that the Commonwealth of Virginia or any agency or institution of the Commonwealth has purchased or uses its products or services.
- B. **AUDIT:** The Contractor hereby agrees to retain all books, records, and other documents relative to this Contract for five (5) years after final payment, or until audited by the Commonwealth of Virginia, whichever is sooner. The agency, its authorized agents, and/or State auditors shall have full access to and the right to examine any of said materials during said period.
- C. **AUTHORIZED USERS:** The Department of the Treasury (Treasury) is issuing this solicitation in cooperation with the Department of Lottery. Requirements of these agencies have been incorporated within this solicitation. Treasury is responsible for administering the program; therefore, correspondence should be directed to the issuing Agency.
- D. **AVAILABILITY OF FUNDS:** It is understood and agreed between the parties herein that the agency shall be bound hereunder only to the extent of the funds available or which may hereafter become available for the purpose of this agreement.
- E. **AWARD OF CONTRACT:** Selection shall be made of two or more Offerors deemed to be fully qualified and best suited among those submitting proposals on the basis of the evaluation factors included in the Request for Proposals, including price, if so stated in the Request for Proposals. Negotiations shall be conducted with the Offerors so selected. Price shall be considered, but need not be the sole determining factor. After negotiations have been conducted with each Offeror so selected, the agency shall select the Offeror that, in its opinion, has made the best proposal, and shall award the Contract to that Offeror. The Commonwealth may cancel this Request for Proposals or reject proposals at any time prior to an award, and is not required to furnish a statement of the reason why a particular proposal was not deemed to be the most advantageous. (Section 2.2-4359D, *Code of Virginia*.) Should the Commonwealth determine in writing and in its sole discretion that only one Offeror is fully qualified, or that one Offeror is clearly more highly qualified than the others under consideration, a Contract may be negotiated and awarded to that Offeror. The award document will be a Contract incorporating by reference all the requirements, terms and conditions of the solicitation and the Contractor's proposal as negotiated.
- F. **BEST AND FINAL OFFER (BAFO):** At the conclusion of negotiations, the offeror(s) may be asked to submit in writing, a best and final offer (BAFO). After the BAFO is submitted, no further negotiations shall be conducted with the offeror(s). The offeror(s) proposal(s) will be rescored to combine and include the information contained in the BAFO. The decision to award will be based on the final evaluation including the BAFO.
- G. **CANCELLATION OF CONTRACT:** The Issuing Agency reserves the right to cancel and terminate any resulting Contract, in part or in whole, without penalty, upon 90 days written notice to the Contractor. In the event the initial Contract period is for more than 12 months, the resulting Contract may be terminated by either party, without penalty, after the initial 12 months of the Contract period upon 90 days written notice to the other party. Any Contract cancellation notice shall not relieve the Contractor of the obligation to deliver and/or perform on all outstanding orders issued prior to the effective date of cancellation. The Contractor shall provide transition services during this period.

- H. **EXTRA CHARGES NOT ALLOWED:** No additional charges will be allowed under the Contract. Any changes to the scope of services that impact prices must be approved in advance by the Director of Cash Management and Investments at the Department of the Treasury.
- I. **INSURANCE, MONEY AND SECURITIES:** Contractor shall maintain a Broad Form Money and Securities Insurance Policy obtained from an insurance company licensed to conduct crime insurance business in the home state of the Contractor and which has earned an A.M. Best Company, Inc. rating of A or better, as reflected in their most current publication, covering all money and property entrusted to the Contractor by the Commonwealth of Virginia for Loss Inside the Premises Coverage and for Loss Outside the Premises Coverage, with limits of coverage to be determined by the Contractor and Department of the Treasury. Certificate of such protection must be presented to the Issuing Agency prior to the start of the service showing name of insurance company, limits and types of coverage, term of coverage, additional insured provision and name and address of licensed insurance agent. The Contractor agrees to maintain such policy until the completion of the Contract and all money and property of the Commonwealth is remitted to the Commonwealth.
- J. **MINORITY/WOMEN OWNED BUSINESSES SUBCONTRACTING AND REPORTING:** Where it is practicable for any portion of the awarded Contract to be subcontracted to other suppliers, the Contractor is encouraged to offer such business to minority and/or women-owned businesses. Names of firms may be available from the Issuing Agency and/or from the Commonwealth's Department of General Services, Division of Purchases and Supply. When such business has been subcontracted to these firms and upon completion of the Contract, the Contractor agrees to furnish the issuing Agency the following information: name of firm, phone number, total dollar amount subcontracted and type of product/service provided.
- K. **PRIME CONTRACTOR RESPONSIBILITIES:** The Contractor shall be responsible for completely supervising and directing the work under this Contract and all subcontractors that he may utilize, using his best skill and attention. Subcontractors who perform work under this Contract shall be responsible to the prime Contractor. The Contractor agrees that he is as fully responsible for the acts and omissions of his subcontractors and of persons employed by them as he is for the acts and omissions of his own employees.
- L. **RENEWAL OF CONTRACT:** At a reasonable time (approximately 90 days prior to the Contract expiration date) and upon written agreement of both parties, this Contract may be extended beyond the initial five-year Contract period by the Commonwealth for a period of one additional three (3) year period at the option of the Department of the Treasury and in accordance with the terms and conditions noted in the Contract, except as stated in (1) below.
- (1) If the Commonwealth elects to exercise the option to extend the Contract for an additional three-year period, the Contract price(s) for the additional three years shall not exceed the Contract prices of the original Contract, or the Contract prices of the original Contract increased/decreased by the percentage increase/decrease of the "Other Services" category of the CPI-W section of the Consumer Price Index of the United States Bureau of Labor Statistics for the latest 12 months for which statistics are available.

At a reasonable time (approximately 90 days prior to the Contract expiration date) the Commonwealth, may, at its sole option, give written notice to extend the terms of this Contract on a month-to-month basis for a period not to exceed six (6) months after the expiration of the original Contract or any renewal period. If necessary, such an extension will serve as a transition period to implement the service with a different service provider. The Contractor will cooperate in any such transition. During such extension all services provided by the Contractor pursuant to the Contract shall continue to be performed in accordance with all applicable federal, State or local laws, ordinances, rules or regulations at the prices last agreed upon.

- M. **SUBCONTRACTS:** No portion of the work shall be subcontracted without prior written consent of the Issuing Agency. In the event that the Contractor desires to subcontract some part of the work specified herein, the Contractor shall furnish the Issuing Agency the names, qualifications and experience of their proposed

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subcontractors. The Contractor shall, however, remain fully liable and responsible for the work to be done by its subcontractor(s) and shall assure compliance with all requirements of the Contract.

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**SECTION IX METHOD OF PAYMENT**

Invoices shall provide a detailed description of the services provided, rates charges and amounts due. The Department of the Treasury will provide payment, subject to Section VIII D. Availability of Funds, within 30 days from the date of receipt of the invoice and acceptance of services rendered.

Invoices shall be submitted to:

Commonwealth of Virginia  
Department of the Treasury  
Cash Management & Investments  
Attn: Gregory A. Schnitzler, Director  
P. O. Box 1879  
Richmond, Virginia 23218-1879

**SECTION X PRICING SCHEDULE**

Provide fee quotes using the assumptions outlined in this section. Provide an unbundled schedule of fees associated with the services you are proposing to provide and then bundle the fees together, in summary format, to create a total annual fee for all services. Please show cost for Master Custody and Related Services assuming the inclusion of the Securities Lending program and the cost of Master Custody and Related Services assuming that the Securities Lending function will be a separately negotiated contract. Respondents not providing a full spreadsheet with all detailed charges will be at a significant disadvantage in this search.

1. U.S. Custody / Safekeeping

Asset-Based Charges for \$8.0 billion.

<u>Transactions</u>	<u>Annual Estimate</u>
Book Entry FRB	2,000
Book Entry DTC	2,600
Book Entry Various (Includes income collection, principal pay-downs, redemptions, maturities, corporate actions, etc.)	9,000
Physical (various)	300
Euroclear	20
Wire Transfers – In	900
Wire Transfers – Out	500

List all other types of transaction and your respective charges. Indicate price differences for client data entry and custodian data entry for wire transfers and security transactions, if applicable.

2. Portfolio Accounting (monthly service).

Portfolio accounting for 22 separately managed portfolios (7 in General Account, 1 LGIP, 3 TICR TSFC, 1 Lottery, 10 Trust accounts).

3. Securities Lending

Please review the attached listing of holdings (**see Appendix F**) and cash collateral investment guidelines (**See Appendix G**) and provide a detailed revenue estimate. Specify terms for revenue-sharing agreement, fees for management of cash collateral (e.g. management fees, auditing, custody) and any other expenses associated with your program. Assume Virginia will require a separately managed investment account for the General Account and a separately managed investment account for Lottery. Indicate what percentage of income is attributed to bonds borrowed versus lending for cash. Prepare separate schedule for General Account and Lottery.

4. LGIP Fund Accounting and Daily Valuation

Fund accounting/daily valuation services for one LGIP portfolio.

5. Transfer Agent

Using the list of services as previously outlined in SECTION III and SECTION VI, provide a complete list of charges associated with providing shareholder and recordkeeping services for approximately 400 participants and 925 shareholder accounts. Assume Virginia will require real-time access to your shareholder system.

Provide a total estimated fee for this service as well as a la carte charges.

6. Performance Measurement

Specify fee for rate of return calculations, universe/benchmark comparisons and consolidated reporting for 6 General Account portfolios, 3 TICR TSFC portfolios (monthly).

7. Compliance Monitoring

Specify for compliance monitoring for 6 General Account portfolios and 3 TICR TSFC portfolios (monthly).

8. Cash Management

Provide expense ratio and performance histories for available STIF funds. Calculate total STIF charges (for inclusion in your fee spreadsheet) assuming \$90 million average balance, and Virginia's use of the lowest cost option.

9. Other Expenses

List any or all other expenses that could be found on a monthly invoice for any related service.

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## **SECTION XI APPENDICES AND DEFINITIONS**

**APPENDIX A**  
**FORM OF COMMONWEALTH OF VIRGINIA CONTRACT**

Appendix A represents the proposed Contract, which the Commonwealth of Virginia would expect the Contractor to sign. Please note any suggestions or additions you would like considered.

COMMONWEALTH OF VIRGINIA  
Department of the Treasury  
Master Custody, Securities Lending and Related Services  
Contract Number CMI 6 - \_\_\_\_\_

This Contract is entered into this \_\_\_ day of \_\_\_\_, 2006 by \_\_\_\_\_, hereinafter called the "Contractor", and the Commonwealth of Virginia Department of the Treasury, hereinafter called the "Issuing Agency".

WITNESSETH that the Contractor and the Issuing Agency, in consideration of the mutual covenants, promises, and agreements herein contained, agree as follows:

SCOPE OF CONTRACT: The Contractor shall provide the services to the Commonwealth as set forth in the Contract Documents.

PERIOD OF CONTRACT: From April 1, 2006 to March 31, 2011, **with one (1) 3-year option to renew the Contract in accordance with the terms and conditions noted in the Contract.**

COMPENSATION AND METHOD OF PAYMENT: Bank service charges are to be included in the Bank's monthly account analysis. The fees will be paid for through compensating balances or a combination of compensating balances and direct fees or an alternative method as specified in the Contractor's Proposal, at the Commonwealth's option.

CONTRACT DOCUMENTS: The Contract Documents shall consist of:

- (1) This signed Contract;
- (2) The following portions of the Request For Proposals dated August 15, 2005:
  - (a) The Statement of Needs
  - (b) The General Terms and Conditions
  - (c) The Special Terms and Conditions, together with any negotiated modifications of those Special Conditions
- (3) The Contractor's proposal dated \_\_\_\_\_, 2005 and all written modifications to the Proposal, **including all written vendor responses**, all of which documents are incorporated herein.

Any contractual claims shall be submitted in accordance with the contractual dispute procedures set forth in Section 7.15 of the Commonwealth of Virginia's *Vendor's Manual*.

IN WITNESS WHEREOF the parties have caused this Contract to be duly executed intending to be bound thereby, and certify they are authorized to sign this Contract for the Contractor or the Commonwealth.

**CONTRACTOR**

**COMMONWEALTH OF VIRGINIA**  
**Department of the Treasury**

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Printed Name)

\_\_\_\_\_  
(Printed Name)

\_\_\_\_\_  
(Title)

\_\_\_\_\_  
(Title)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Date)

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**APPENDIX B**  
**OFFEROR’S REPORT OF SMALL, WOMEN-OWNED, AND**  
**MINORITY-OWNED BUSINESSES, DEFINITIONS OF CERTAIN TERMS**

**PARTICIPATION OF SMALL, WOMEN OWNED,  
AND MINORITY OWNED BUSINESSES**

1. Participation by Small Businesses:

- a. Offeror certifies that it ( ) is, ( ) is not, a small business concern (including its affiliates) which is independently owned and operated. For the purpose of this procurement, a small business is a concern that is not dominant in the field of operation in which it is contracting and can further qualify under the criteria concerning number of employees, average annual receipts, or other criteria, as prescribed by the United States Small Business Administration.
- b. List small businesses with which the Offeror has contracted or done business and dollar amounts spent with each of these businesses in the most recent 12-month period for which data is available. Offerors are encouraged to provide additional information and expand upon the following format:

PERIOD: From: \_\_\_\_\_ To: \_\_\_\_\_

FIRM NAME, ADDRESS, PHONE NO.	CONTACT PERSON	TYPE GOODS/ SERVICES	DOLLAR AMOUNTS	%TOTAL CO. EXPENDITURES FOR GOODS & SERVICES ***

**\*\*\* WHEN FIGURING THE TOTALS IN THIS COLUMN, THE TOTAL EXPENDITURES FOR ALL THREE CATEGORIES (SMALL, WOMEN AND MINORITY-OWNED BUSINESSES) CAN NOT EXCEED 100%.\*\*\***

- c. Describe Offeror's plans to involve small businesses in the performance of this Contract either as part of a joint venture, as a partnership, as subcontractors or as suppliers. Offerors are encouraged to provide additional information and expand upon the following format:

PERIOD: From: \_\_\_\_\_ To: \_\_\_\_\_

FIRM NAME, ADDRESS, PHONE NO.	CONTACT PERSON	TYPE GOODS/ SERVICES	DOLLAR AMOUNTS	% OF TOTAL CONTRACT***

**\*\*\* WHEN FIGURING THE TOTALS IN THIS COLUMN, THE TOTAL EXPENDITURES FOR ALL THREE CATEGORIES (SMALL, WOMEN AND MINORITY-OWNED BUSINESSES) CAN NOT EXCEED 100%.\*\*\***

2. Participation by Businesses Owned by Women:

- a. Offeror certifies that it ( ) is, ( ) is not, a women's business enterprise or women owned business. For the purpose of this procurement, a woman owned business is a concern that is at least 51 percent owned by a woman or women who also control and operate it. In this context, "control" means exercising the power to make policy decisions, and "operate" means being actively involved in the day-to-day management.

- b. List businesses owned by women with whom the Offeror has contracted or done business and dollar amounts spent with each of these businesses in the most recent 12-month period for which data is available. Offerors are encouraged to provide additional information and expand upon the following format:

PERIOD: From: \_\_\_\_\_ To: \_\_\_\_\_

FIRM NAME, ADDRESS, PHONE NO.	CONTACT PERSON	TYPE GOODS/ SERVICES	DOLLAR AMOUNTS	%TOTAL CO. EXPENDITURES FOR GOODS/SERVICES WOMEN-OWNED BUS.***

**\*\*\*WHEN FIGURING THE TOTALS IN THIS COLUMN, THE TOTAL EXPENDITURE FOR ALL THREE CATEGORIES (SMALL, WOMEN, AND MINORITY-OWNED BUSINESSES) CAN NOT EXCEED 100%.\*\*\***

- c. Describe Offeror's plans to involve businesses owned by women in the performance of this Contract, either as part of a joint venture, as a partnership, as subcontractors or as suppliers. Offerors are encouraged to provide additional information and expand upon the following format:

PERIOD: From: \_\_\_\_\_ To: \_\_\_\_\_

FIRM NAME, ADDRESS, PHONE NO.	CONTACT PERSON	TYPE GOODS/ SERVICES	DOLLAR AMOUNTS	% OF TOTAL CONTRACT WOMEN-OWNED BUS.***

**\*\*\*THIS COLUMN REFLECTS WHAT PERCENTAGE OF THE 100% VALUE OF THIS CONTRACT YOU WILL AWARD TO WOMEN-OWNED BUSINESSES\*\*\***

3. Participation by Businesses Owned by Minorities:

- a. Offeror certifies that it ( ) is, ( ) is not, a minority business enterprise or minority owned business. For the purpose of this procurement, a minority-owned business is a concern that is at least 51 percent owned by one or more socially and economically disadvantaged persons. Such disadvantage may arise from cultural, racial, chronic economic circumstances or background or other similar cause. Such persons include, but are not limited to, African Americans, Hispanic Americans, Asian Americans, American Indians, Eskimos, and Aleuts.
- b. List businesses owned by minorities with which the Offeror has contracted or done business and dollar amounts spent with each of these businesses in the most recent 12-month period for which data is available. Offerors are encouraged to provide additional information and expand upon the following format:

PERIOD: From: \_\_\_\_\_ To: \_\_\_\_\_

FIRM NAME, ADDRESS & PHONE NO.	CONTACT PERSON	TYPE GOODS/ SERVICES	DOLLAR AMOUNTS	% TOTAL CO. EXPENDITURES FOR GOODS/SERVICES FROM MINORITY-OWNED BUS.***

**\*\*\*WHEN FIGURING THE TOTALS IN THIS COLUMN, THE TOTAL EXPENDITURE FOR ALL THREE CATEGORIES (SMALL, WOMEN, AND MINORITY-OWNED BUSINESSES) CAN NOT EXCEED 100%.**

- c. Describe Offeror's plans to involve minority businesses in the performance of this Contract, either as part of a joint venture, as a partnership, as subcontractors or as suppliers. Offerors are encouraged to provide additional information and expand upon the following format:

PERIOD: From: \_\_\_\_\_ To: \_\_\_\_\_

FIRM NAME, ADDRESS & PHONE NO.	CONTACT PERSON	TYPE GOODS/ SERVICES	DOLLAR AMOUNTS	% OF TOTAL CONTRACT MINORITY-OWNED BUS.***

**\*\*\*THIS COLUMN REFLECTS WHAT PERCENTAGE OF THE 100% VALUE OF THIS CONTRACT YOU WILL AWARD TO MINORITY-OWNED BUSINESSES.\*\*\***

## DEFINITIONS OF CERTAIN TERMS

For the purpose of this RFP, the following shall serve as definitions:

PERIOD is the specified 12-month period for which the information provided in this list is applicable and valid. The period will be specified as month and year.

FIRM NAME, ADDRESS AND PHONE NUMBER is the name address and business phone number of the small business, women owned business or minority owned business with which the Offeror has contracted or done business over the specified period or plans to involve on this Contract, as applicable.

CONTACT PERSON is the name of the individual in the specified small business, women owned business or minority owned business who would have knowledge of the specified contracting and would be able to validate the information provided in this list.

TYPE GOODS OR SERVICES is the specific goods or services the Offeror has contracted for from the specified small, women owned or minority owned business over the specified period of time or plans to use in the performance of this Contract, as applicable. The Offeror will asterisk (\*) those goods and services that are in the Offeror's primary business or industry.

DOLLAR AMOUNT is the total dollar amount (in thousands of dollars) the Offeror has contracted for or has done business with the listed firm during the specified period or plans to use on this Contract, as applicable.

% TOTAL COMPANY EXPENDITURES FOR GOODS AND SERVICES is calculated by dividing the dollar amount of business conducted or contracted for with the indicated firm over the specified period by the total expenditure of the Offeror over the specified period for goods and services.

% OF TOTAL CONTRACT is calculated by dividing the estimated dollars planned for the indicated firm on this Contract by the total Offeror estimated price of this Contract.

SMALL BUSINESS is a concern that is not dominant in the field of operation in which it is contracting and can further qualify under the criteria concerning number of employees, average annual receipts, or other criteria, as prescribed by the United States Small Business Administration.

WOMAN-OWNED BUSINESS is a concern that is at least 51 percent owned by a woman or women who also control and operate it. In this context, "control" means exercising the power to make policy decisions, and "operate" means being actively involved in the day-to-day management.

MINORITY-OWNED BUSINESS is a concern that is at least 51 percent owned by one or more socially and economically disadvantaged persons. Such disadvantage may arise from cultural, racial, chronic economic circumstances or background or other similar cause. Such persons include, but are not limited to, African Americans, Hispanic Americans, Asian Americans, American Indians, Eskimos, and Aleuts.

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**APPENDIX C**  
**GENERAL ACCOUNT INVESTMENT GUIDELINES**

Commonwealth of Virginia Department of the Treasury  
RFP# CMI 06-001 – Master Custody, Securities Lending and Related Services  
Due: Friday, September 30, 2005 @ 3:00 p.m.

**APPENDIX D**  
**LGIP INVESTMENT CIRCULAR**

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RFP# CMI 06-001 – Master Custody, Securities Lending and Related Services  
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**APPENDIX E**  
**TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION**  
**ENDOWMENT GUIDELINES**

Commonwealth of Virginia Department of the Treasury  
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**APPENDIX F**  
**PORTFOLIO HOLDINGS FOR GENERAL ACCOUNT AND LOTTERY ACCOUNT**

Commonwealth of Virginia Department of the Treasury  
RFP# CMI 06-001 – Master Custody, Securities Lending and Related Services  
Due: Friday, September 30, 2005 @ 3:00 p.m.

**APPENDIX G**  
**SECURITIES LENDING CASH COLLATERAL INVESTMENT GUIDELINES FOR**  
**GENERAL ACCOUNT AND LOTTERY ACCOUNT**

**COMMONWEALTH OF VIRGINIA  
DEPARTMENT OF THE TREASURY**



**GENERAL ACCOUNT INVESTMENT GUIDELINES  
Statement of Investment Policies and Goals**

**Adopted By The Treasury Board  
June 15, 2005  
Effective July 1, 2005**

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## **OVERVIEW**

The Commonwealth of Virginia, Department of the Treasury manages the General Account Investment Portfolio. These monies are comprised of funds collected and held for various fund groups including the General Fund of the Commonwealth.

This document sets forth the responsibilities of the Treasury and its investment managers relating to the implementation of the investment policy and asset strategy, and evaluation and review of investment performance and progress toward attaining goals.

### **State Treasury Policy**

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investment of public funds. Investment shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

### **Treasury Objectives**

The primary objectives, in priority order of the State Treasurer's investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the State Treasurer shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
2. **Liquidity.** The State Treasurer's investment portfolio will remain sufficiently liquid to enable it to meet all operational requirements which might be reasonably anticipated.
3. **Return on investment.** The State Treasurer's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account its investment risk constraints and the cash flow characteristics of the portfolio.

## ***POLICY GUIDELINES***

### **General Account Structure**

In order to meet the primary objectives of the State Treasurer, the General Account will be divided into two major pools: a Primary Liquidity Pool and a Total Return Pool. The Primary Liquidity Pool, which will be internally managed by the Treasury Staff, is to be the major source for disbursement requirements and operational needs of the General Account. Safety of principal and liquidity at the expense of return on investment are the foremost objectives of the portfolio.

The objective of the Total Return Pool, which will be externally managed, is to generate an investment return, over the long-term, higher than the return on assets managed internally (Primary Liquidity Pool). To generate higher investment returns, it is recognized that additional interest rate risk and credit risk, within prudent constraints, must be assumed in the management of the Total Return Pool. To further control these risks, and to provide for sufficient management flexibility, the Total Return Pool may be structured into three sub-portfolios: a Short Duration Portfolio, an Intermediate Duration Portfolio, and an Extended Duration Portfolio. However, in seeking higher investment returns, the portfolio managers of the Total Return Pool will be cognizant of the Treasury objectives of safety of principal and liquidity.

### **Asset Mix Policy**

The Treasury's allocation target for the overall General Account asset mix are:

Primary Liquidity Pool	75%
Total Return Pool	25%

The Treasury's allocation guidelines for the Total Return Pool are:

	<b><u>Target</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
Short Duration Portfolio	20%	15%	40%
Intermediate Duration Portfolio	60%	30%	85%
Extended Duration Portfolio	20%	0%	30%

The intent of the Asset Mix Policy is to increase the overall average maturity of the General Account Investment Portfolio to enhance the returns over the long-term. Deviations from the allocation targets for the General Account, and from the guidelines for the Total Return Pool listed below, may be made by the Treasury Investment Staff, when economic conditions or liquidity needs warrant, or when the Treasury Staff determines that the aggregate deviation does not constitute a material departure from the spirit of the target allocation and the intent of the Treasury Board. The Treasury Investment Staff shall review the target allocations and guidelines at least annually.

## **Investment Guidelines and Restrictions**

### Authorized Investments

The State Treasurer is empowered by statute to invest in the following types of securities:

1. Obligations issued or guaranteed by the U.S. Government, an Agency thereof, or U.S. Government sponsored corporation. These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, and in the form of a registered money market or mutual fund provided that the portfolio of the fund is limited to such evidences of indebtedness.
2. Non-negotiable certificates of deposit and time deposits of Virginia banks and saving institutions federally insured to the maximum extent possible and collateralized under the Virginia Security of Public Deposits Act.
3. Repurchase agreements collateralized by the U.S. Treasury/Agency securities. The collateral on overnight or one day repurchase agreements is required to be at least 100% of the value of the repurchase agreement. Longer term repurchase agreements are required to have collateralization in excess of 100% and be marked to market on a regular basis. However, market fluctuations could result in the value of the collateral increasing or decreasing between the valuation and published closing prices.
4. Bankers acceptances with major U.S. money center banks and domestic offices of international banks.
5. Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks.
6. Commercial paper issued by domestic corporations.
7. Corporate notes and busted convertibles of domestic corporations.
8. Taxable Municipal Securities
9. Asset-backed securities and mortgage-backed securities.
10. Dollar denominated obligations of sovereign governments, and their instrumentalities.
11. Commercial Mortgage-Backed Securities (CMBS), Collateralized Mortgage Obligations (CMOs) and Planned Amortization Classes (PACs).

## Credit Quality

The State Treasurer will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the following credit quality limitations at time of purchase. Should a security fail to meet the following credit quality limitations after purchase (i.e., credit downgrades), the external manager shall notify the Treasury Investment Officer or Director and the Investment Consultant in writing within one business day, of each security that fails to meet the credit quality limitations. Such security must then be sold within 60 calendar days, or earlier if so directed by Treasury Investment Staff, unless the manager's reasoning to continue to hold the security is approved in writing by the State Treasurer.

1. Bankers acceptances. Bankers acceptances of domestic banks and domestic offices of international banks must be rated no lower than P-1 by Moody's Investors Service and A-1 by Standard & Poor's.
2. Negotiable certificates of deposit and negotiable bank notes. Negotiable certificates of deposit and negotiable bank notes of domestic banks and domestic offices of foreign banks must be rated at least P-1 by Moody's Investors Service and A-1 by Standard and Poor's for maturities of one year or less. They must be rated at least Aa by Moody's Investors Service and AA by Standard and Poor's for maturities exceeding one year.
3. Commercial paper. Commercial paper notes of domestic corporations must be rated no lower than P-1 by Moody's Investors Service and A-1 by Standard & Poor's.
4. Corporate Notes and Bonds and Busted Convertibles. Securities of domestic corporations must be rated A or better by two nationally recognized rating agencies, one of which must be either Moody's Investors Service or Standard & Poor's. This includes all levels of the 'A' rating. However, each external investment manager may invest up to 10% of their portfolio in any rating level of Baa/BBB rated bonds which, at a minimum, must be rated investment grade by two nationally recognized rating agencies (one of which must be either Moody's Investors Service or Standard & Poor's). In addition, all Baa/BBB rated securities purchased in the portfolio must be considered "investment grade" by Lehman Brothers as related to inclusion in the appropriate Lehman index. Busted convertibles must be liquidated prior to conversion to equity. Also, to avoid holding equity-like securities, busted convertibles must be sold when they reach 105% of their bond value.
5. Taxable Municipal Bonds. Taxable Municipal Bonds issued by states, political subdivisions, and agencies of the fifty United States (including D.C.) and its territories. Municipal bonds must be rated A or better by two nationally recognized rating agencies (one of which must be either Moody's Investors Service or Standard & Poor's).
6. Asset-backed securities. Asset-backed securities must be rated AAA by at least two nationally recognized rating agencies (one of which must be either Moody's Investors Service or Standard & Poor's.)
7. Dollar denominated obligations of sovereign governments. Sovereign debt must be rated Aaa by Moody's Investor Service and AAA by Standard & Pools.

8. Commercial Mortgage-Backed Securities (CMBS), Collateralized Mortgage Obligations (CMOs), and Planned Amortization Classes (PACs) must be rated AAA or better by two nationally recognized rating agencies (one of which must be either Moody's Investors Service or Standard & Poor's.) This also includes all private label mortgage-related securities.

Diversification

The State Treasurer will diversify investments by security type and by issuer and the following shall apply:

1. Each portfolio will be diversified with no more than 5% of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or Agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit.
2. The maximum percentage of the Primary Liquidity Pool in each eligible security type is limited as follows:

U.S. Treasury and Agency Securities	100%
Non-Negotiable Certificates of Deposit	5%
Repurchase Agreements and/or Money Market Funds	35%
Bankers Acceptances, Negotiable Certificates of Deposit and/or Negotiable Bank Deposit Notes	40%
Commercial Paper	35%
Corporate Notes (Includes taxable municipal securities).	35%
Obligations of Sovereign Governments, and their instrumentalities	10%

3. The maximum percentage of each portfolio within the Total Return Pool in each eligible security type is limited as follows:

U.S. Treasury and Agency Securities	100%
Non-Negotiable Certificates of Deposit	0%
Repurchase Agreements	0%
Bankers Acceptances	0%
Negotiable Certificates of Deposit and Negotiable Bank Deposit Notes	20%
Commercial Paper	0%
Corporate Bonds/Notes (Includes Busted Convertibles)	65%
Taxable Municipal Securities	20%
Asset-Backed Securities	35%
Combined MBS, CMBS, CMO, PAC	<u>60%</u>
Mortgage-Backed Securities (MBS)	50%
Commercial Mortgage-Backed Securities (CMBS)	10%
Collateralized Mortgage Obligations (CMOs) Other Than PACs	10%
Planned Amortization Classes (PACs)	20%

Obligations of Sovereign Governments, and their instrumentalities	10%
Money Market Funds (excluding transitional cash)	10%

- All money market assets in the Total Return Pool shall be invested in a high quality short-term investment fund designated by the Treasury Staff and made available by the General Account Master Custodian.

Prohibited Investments or Actions

- Inverse floaters, IOs, POs, and Z-tranche securities.
- Futures, options, options on futures, margin buying, leveraging, and commodities. Forward trades are permitted as long as they are procured during normal "when issued" periods for individual markets and as long as cash is reserved or a security will mature to cover the purchase.
- Any security not strictly authorized above must be approved in advance, in writing, by the Treasury Investment Staff.

Duration Limitations

To the extent necessary, the State Treasurer will attempt to match investments with anticipated cash requirements. Additional funds will be invested at maturities determined to be most beneficial to the portfolio. The following duration limitations shall apply:

- The maximum duration for any single corporate security may not exceed 15 years and the maximum duration for any single asset-backed security may not exceed five years at the time of purchase. In the event the duration subsequently exceeds these limits, the external manager shall notify the Treasury Investment Officer or Director who shall determine whether the security should be sold. The maximum maturity on any single sovereign government obligation, excluding the U.S., may not exceed five years. The maximum maturity on any negotiable certificate of deposit and negotiable bank deposit note may not exceed five years.
- The target duration (years) for the Primary Liquidity Pool, the Total Return Pool, and each Total Return Portfolio, are as follows:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Primary Liquidity Pool	0.3	1.0	1.4
Total Return Pool	2.0	3.5	4.3
Short Duration Portfolio	1.4	1.7	2.0
Intermediate Duration Portfolio	2.0	3.5	4.2
Extended Duration Portfolio	2.8	5.5	6.9

- The above target durations, coupled with the Asset Mix Policy previously described, are designed to establish a target duration of 1.6 years for the overall General Account, within a range of 0.4 years at the minimum to 2.3 years at the maximum.

The Asset Mix Policy and the target duration guidelines shall be reviewed at least annually by the Treasury Investment Staff, and modified as conditions warrant.

For purposes of this section, duration shall be defined as the industry standard modified duration as calculated by Bloomberg. In addition, for purposes of asset-backed securities and mortgage-backed securities, the prepayment assumptions to be used in the modified duration calculation will be the Bloomberg median prepayment assumptions. In the absence of a median prepayment assumption available in Bloomberg, the assumption to be used shall be that which provides the greatest principal protection to the portfolio.

### **Securities Lending**

Securities lending will be performed for the General Account portfolio under an approved agreement and separate Securities Lending Policies and Guidelines. Net lending income will be added to the General Account income.

### **General Account Benchmarks**

<u>Total General Account:</u>	Composite weighted 75% Primary Liquidity Pool benchmark, 25% Total Return Pool benchmark
<u>Primary Liquidity Pool:</u>	Treasury One-year Constant Maturity
<u>Total Return Pool:</u>	Composite weighted 20% Short Duration benchmark, 60% Intermediate Duration benchmark, 20% Extended Duration benchmark
<u>Short Duration Portfolio:</u>	Lehman Brothers 1-3 Year Treasury Index
<u>Intermediate Duration Portfolio:</u>	85% Lehman Brothers Intermediate Government/Credit Index, 15% Lehman MBS Fixed Rate Index.
<u>Extended Duration Portfolio:</u>	Composite weighted 83% Lehman Brothers Aggregate Bond Index, 17% Lehman Brothers Long Government/Credit Index.

All General Account benchmarks will be reviewed annually, and adjusted based upon changes in the General Account Structure and/or changes in objectives of the General Account, Primary Liquidity Pool or Total Return Pool.

## **STANDARDS OF INVESTMENT PERFORMANCE**

Performance results of the Primary Liquidity Pool shall be dollar-weighted. Performance results for the Total Return Pool, and for each Pool component, shall be time-weighted and measured net of investment management fees. Volatility risk shall be measured by the standard deviation of annualized quarterly returns.

### **STANDARDS OF INVESTMENT PERFORMANCE**

	<b>Relative Standard (5 years)</b>
<b>Total General Account</b>	Exceed the General Account benchmark by 11 basis points
	Volatility should not exceed 115% of the General Account benchmark
<b>Primary Liquidity Pool</b>	Exceed the Primary Liquidity Pool benchmark by 10 basis points
	Volatility should not exceed 110% of the Primary Liquidity Pool benchmark
<b>Total Return Pool</b>	Exceed the Total Return Pool benchmark by 46 basis points
	Volatility should not exceed 120% of the Total Return Pool benchmark
<b>Short Duration Portfolio</b>	Exceed the Short Duration Portfolio benchmark by 30 basis points
	Volatility should not exceed 115% of the Short Duration Portfolio benchmark
<b>Intermediate Duration Portfolio</b>	Exceed the Intermediate Duration Portfolio benchmark by 50 basis points
	Volatility should not exceed 120% of the Intermediate Duration Portfolio benchmark
<b>Extended Duration Portfolio</b>	Exceed the Extended Duration Portfolio benchmark by 50 basis points
	Volatility should not exceed 125% of the Extended Duration Portfolio benchmark

## **REPORTING REQUIREMENTS**

### **Treasury Responsibilities**

The State Treasurer is charged with the responsibility of reporting to the Treasury Board on a monthly basis. These reports will include investment performance information, security holdings by manager, and security market values by manager. The State Treasurer has contracted with the Master Custodian to run compliance reports on the external investment portfolios. These compliance reports are comprised of various screens or tests of both individual security and total portfolio guidelines. Any significant or continuing problems will be reported to Treasury Board. Additional information will be provided if deemed appropriate or if requested. Treasury will arrange for the Master Custodian to present an annual performance review of the external investment portfolios. This Statement of Investment Policy & Goals shall be reviewed at least annually by the Treasury Staff and, if appropriate, amended at such times as the Treasury Board shall determine.

### **Investment Manager Responsibilities**

Each investment manager shall have the responsibility to:

1. Within 30 days of each month end, reconcile all transactions, market values, security holdings, and cash flows with the General Account Master Custodian and provide a written report to the Custodian, with a copy to the Treasury of all areas of discrepancy or disagreement with the Master Custodian.
2. Report monthly performance against the benchmarks established for the account by the fifth business day of the following month. Provide quarterly written or electronic reports concerning investment strategy and economic and investment outlook by the end of the following month.
3. Provide a quarterly accounting of any professional staff turnover that would impact this relationship. Any material event that has an impact on the ownership of the investment organization or the management of this account must be reported immediately to Treasury Investment Staff.
4. Attend an annual meeting of all external portfolio managers and the Treasury Staff to review the current economic and market conditions, economic and market outlook, and the investment policies and goals of the Commonwealth of Virginia General Account Investment Fund.

# LGIP

LOCAL GOVERNMENT INVESTMENT POOL

INVESTMENT CIRCULAR

August 1, 2005



Commonwealth of Virginia  
Department of the Treasury

Jody M. Wagner  
State Treasurer

**COMMONWEALTH OF VIRGINIA**  
**LOCAL GOVERNMENT INVESTMENT POOL**  
**“INVESTMENT CIRCULAR”**

**August 1, 2005**

**Jody M. Wagner**  
**State Treasurer**

**ADVISORY BOARD**  
**Treasury Board**  
**Commonwealth of Virginia**

**CUSTODIAN & SERVICING**  
**JPMorgan Chase Bank**

**INDEPENDENT AUDITORS**  
**Auditor of Public Accounts**  
**Commonwealth of Virginia**

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# OVERVIEW

## **PURPOSE**

The Local Government Investment Pool (LGIP) offers public entities of the Commonwealth of Virginia the opportunity to participate in a professionally managed, ‘AAAm’ rated by Standard and Poor’s, diversified portfolio structured to meet the unique requirements of Virginia’s "Investment of Public Funds" statutes. Within the framework of the Virginia statutes, the LGIP is structured to provide public entities an investment alternative that minimizes the risk of principal loss, while offering daily liquidity and a competitive rate of return. Through the LGIP, public finance officials can share in the benefits and advantages of large-scale institutional investment management provided by the Investment Division of the State Treasurer’s office.

## **STATUTORY AUTHORITY**

The 1980 session of the Virginia General Assembly enacted the "Investment of Public Funds and Local Government Investment Pool Act", §§2.2-4600 through 2.2-4606 of the *Code of Virginia*, authorizing the Treasury Board to administer the LGIP for the benefit of public entities of the Commonwealth. As permitted by law, the Treasury Board has delegated the administrative aspects of managing the LGIP to the State Treasurer.

## **POLICY STATEMENT**

It is the policy of the LGIP management, pursuant to Treasury Board guidelines, to invest the LGIP assets in a manner which will seek the highest investment return consistent with the maximum preservation of principal; to manage the LGIP portfolio to meet the daily liquidity needs of participants; to ensure compliance with all Virginia statutes governing the investment of public funds; and to administer the LGIP in a manner which enables localities to comply with generally accepted accounting principles and the Governmental Accounting Standards Board’s (GASB) reporting requirements. LGIP shares are offered exclusively and continuously to public entities of the Commonwealth.

The Treasury Board is committed to managing the LGIP in accordance with certain risk limiting provisions to maintain a stable net asset value (NAV) at \$1.00 per share. Although the LGIP cannot guarantee a \$1.00 share price, this goal is facilitated as follows:

1. The LGIP is ‘AAAm’ rated by Standard and Poor’s and managed in a manner to comply with their ‘AAAm’ rating requirements.
2. The LGIP is managed in accordance with the “2a-7 like pool” risk limiting requirements of GASB Statement No. 31.
3. The portfolio securities are valued by the amortized cost method, and on a monthly basis this valuation is compared to current market to monitor any variance.

4. At the time of purchase, portfolio securities must have a remaining maturity of thirteen months or less, except adjustable rate government securities may have a remaining maturity of up to 762 calendar days.
5. The dollar weighted average maturity of the portfolio may not exceed 90 days.
6. Investments are limited to short-term, high quality credits that can be readily converted into cash with limited price variation.

## **YIELD INFORMATION**

The LGIP yield is updated daily and can be viewed on the LGIP page of Treasury's website at <http://www.trsvirginia.gov/cash/lgip.asp> or by calling the staff at (800) 643-7800 or (804) 786-1156. Yields are quoted net of the LGIP six basis point management and administration fee.

The "Daily Yield" refers to the income generated by your investment on that day expressed as an annual percentage. Both the 7-day Yield and the Average Monthly Yield reflect the same methodology—averaged over the applicable period.

The "Effective Yield" assumes that the income earned is reinvested on a monthly basis. It is slightly higher due to the effect of compounding.

## **NET ASSET VALUE (NAV)**

The NAV of the LGIP is determined at the close of each business day. It is calculated by adding the amortized cost value of all portfolio securities and other assets, deducting actual and accrued liabilities, and dividing by the number of units (shares) outstanding.

## **VALUATION**

The LGIP portfolio is valued by the amortized cost valuation technique, which does not take into account unrealized gains and losses. Registered money market funds are permitted to use this method of valuation pursuant to Rule 2a-7 of the Securities and Exchange Commission; provided, certain risk limiting conditions are met to minimize share price fluctuations. The LGIP adheres to these rules pursuant to its investment guidelines outlined in the "Investment Policy and Guidelines" section of this Circular.

The amortized cost valuation method values securities at their acquisition cost adjusted for amortization of premium or accretion of discount rather than at their value based on current market factors. While this method provides certainty of valuation, it may result in periods during which values as determined by amortized cost are higher or lower than the price the LGIP would receive if the individual securities were sold. To monitor the extent of any fluctuation, the LGIP portfolio is marked-to-market on a monthly basis and the market-based valuation is compared to the amortized cost valuation in accordance with procedures outlined in the "LGIP Investment Policy and Guidelines". Portfolio valuation oversight is also provided by the Treasury Board in their monthly review of the LGIP investment portfolio, which is presented at current market value compared to amortized cost.

## **ADVANTAGES**

The LGIP offers the public investor diversification, daily liquidity, and professional management; which provide greater liquidity and higher yields over time than would be obtained through individual investments of similar maturities. Through participation in the LGIP, public entities can take advantage of additional benefits:

1. *Convenience and Compliance* - Participants own shares of a diversified portfolio managed in compliance with Virginia's "Investment of Public Funds" and safekeeping statutes as well as required Governmental Accounting Standards Board reporting standards.
2. *Cash Management* - Same day liquidity permits flexibility and fine-tuning of cash management needs.
3. *Costs* – All administrative and management fees are deducted from the LGIP earnings accrual each day prior to distribution of the earnings to participants; therefore, fees are totally transparent to participants. (See Management Fees for fee calculation).
4. *Electronic Data Interchange (EDI)* - Direct investment of EDI payments from the State into the locality's LGIP account is permissible. This ensures immediate investment without the necessity of prior notification and eliminates the need and cost to wire funds to the LGIP. EDI information may be obtained online at <http://www.doa.virginia.gov/>
5. *Online access to Account Information* – Account information can be viewed through a secure online web site.
6. *Statements* - Monthly statements include all transactions, the earnings rate, and the monthly dividend.
7. *Competitiveness* – The LGIP offers a competitive rate of return, which should enhance the rates offered to you on alternative investments.

## **PERFORMANCE**

The LGIP has consistently achieved its investment objective of providing investors with a high level of current investment income consistent with the constraints of its primary objective of preservation of principal. The following summary provides a 5-year yield comparison to the 91-Day U.S. Treasury Bill and all taxable institutional money market funds reporting to iMoneyNet, Inc. (formerly IBC Financial Data, Inc.) These are two widely accepted benchmarks used for money market fund comparisons.

## 5-YEAR AVERAGE ANNUALIZED YIELD COMPARISONS

Fiscal Year	<u>LGIP</u>	91-Day T-Bill <sup>1</sup>	iMoneyNet Money Fund Monitor Institutional Index <sup>2</sup>
2005	<b>2.13%</b>	2.27%	1.79%
2004	<b>1.08%</b>	0.98%	0.67%
2003	<b>1.50%</b>	1.32%	1.11%
2002	<b>2.66%</b>	2.17%	2.11%
2001	<b>5.91%</b>	5.27%	5.45%
5-Year Average	<b>2.66%</b>	2.40%	2.23%

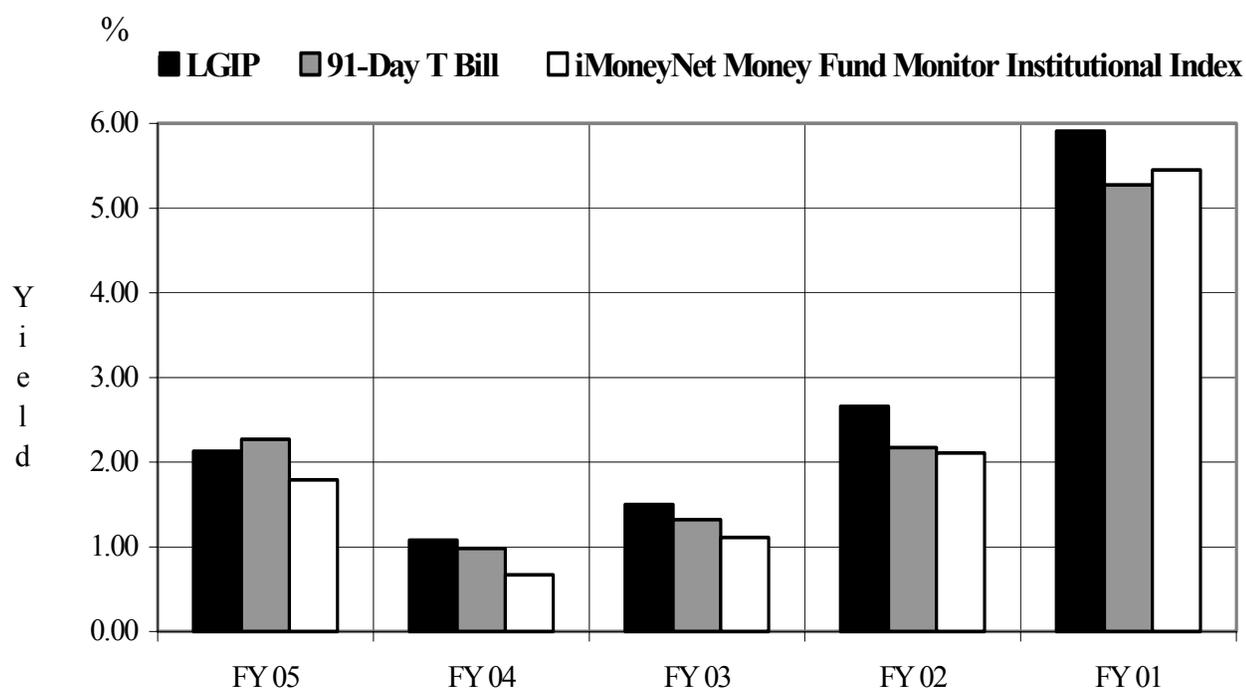
<sup>1</sup>Average US Govt. Bond Equivalent Yields for the secondary market calculated from the monthly Federal Reserve H.15 Release.

<sup>2</sup>Average monthly "Total Institutions-Only Average" Yields reported by iMoneyNet, Inc.

The monthly reinvestment of dividends results in an **effective yield** for each period as follows:

<u>LGIP</u>	<u>Effective Yield</u>
FY05	2.14%
FY04	1.08%
FY 03	1.51%
FY 02	2.70%
FY 01	6.07%

## 5-YEAR YIELD COMPARISON



**Investment Policy and Guidelines**  
**Adopted by the Treasury Board**  
**March 16, 2005**  
**(Effective April 1, 2005)**

**POLICY**

It is the policy of the Treasury Board of the Commonwealth to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily liquidity needs of the LGIP and conforming to all state statutes governing the investment of public funds. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Although the LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 and in accordance with Statement No. 31 of the Governmental Accounting Standards Board definition of "2a-7 like pools".

**OBJECTIVES**

The primary objectives, in priority order, of the LGIP investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
2. **Liquidity.** The LGIP investment portfolio will remain sufficiently liquid to enable it to meet all operation requirements that might be reasonably anticipated.
3. **Return on Investment.** The LGIP investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account its investment risk constraints and the cash flow characteristics of the Pool.

**AUTHORIZED INVESTMENTS AND CREDIT QUALITY**

Authorized investments for public funds are set forth in the "Investment of Public Funds Act" of the *Code of Virginia* §§2.2-4500 through 2.2-4516. Within the permitted statutory framework, the Treasury Board limits the investment of LGIP assets to the following categories of securities and subject to the prescribed credit quality limitations at the time of purchase. In the event a security is downgraded to a level that ceases to meet the LGIP credit quality standards, the Department of the Treasury shall promptly reassess the security to determine what action, if any, will be in the best interest of the LGIP and its participants.

Authorized investments are:

1. Obligations issued or guaranteed by the U. S. government, an agency thereof, or U.S. government sponsored enterprises (GSEs). These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, and in the form of a registered money market or mutual fund provided that the portfolio of the fund is limited to such evidences of indebtedness.

2. Repurchase Agreements collateralized by obligations issued or guaranteed by the U. S. government, an agency thereof, or GSEs. The collateral on repurchase agreements is required to be at least 102% of the value of the repurchase agreement. Collateralization requirements on longer-term repurchase agreements will vary depending on the frequency of substitutions and frequency of market valuation. Market fluctuations could result in the value of the collateral increasing or decreasing between the valuation and published closing prices.
3. Non-Negotiable certificates of deposit and time deposits of Virginia banks and savings institutions federally insured to the maximum extent possible and collateralized under the Virginia Security for Public Deposits Act, Section 2.2-4400 through 2.2-4411 of the *Code of Virginia*.
4. Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks. The issuing entity must be rated not lower than P-1 by Moody's Investment Services **and** A-1 by Standard and Poor's, Inc.
5. Banker's acceptances with major U. S. banks and domestic offices of international banks. The issuing entity must be rated not lower than P-1 by Moody's Investors Service **and** A-1 by Standard and Poor's Corporation.
6. Commercial paper issued by domestic corporations rated not lower than P-1 by Moody's Investors Service **and** A-1 by Standard & Poor's Corporation.
7. Short-term corporate notes of domestic corporations. Minimum rating requirements are Aa and AA or better by Moody's Investors Service **and** Standard & Poor's Corporation or short-term ratings of P-1 and A-1 respectively, whichever is applicable, including sub-categories or gradations indicating relative standing
8. Short-term taxable municipal obligations issued by state and local governments, their agencies and instrumentalities. Minimum rating requirements are Aa and AA or better by Moody's Investors Service **and** Standard & Poor's Corporation or short-term ratings of MIG 1/VMIG 1 and SP-1/A-1 respectively, whichever is applicable, including sub-categories or gradations indicating relative standing.

### **PROHIBITED INVESTMENTS OR ACTIONS**

1. CMOs, inverse floaters, IOs, POs, and Z-tranche securities, etc.
2. Futures, options, options on futures, margin buying, leveraging, and commodities. Forward trades are permitted as long as they are procured during normal "when issued" periods for individual markets and as long as cash is reserved or a security will mature to cover the purchase.

### **DIVERSIFICATION**

The LGIP will diversify its investments by security type and by issuer consistent with the following guidelines:

1. The portfolio will be diversified with not more than 5% of the value of the LGIP assets invested in the securities of any single issuer. This limitation shall not apply to securities of the U. S. Government or agency thereof, or GSEs.
2. The maximum percentage of the portfolio permitted in each eligible asset category is as follows:

U. S. Treasury and Agency Securities .....	100% maximum
Repurchase Agreements.....	50% maximum
Bankers Acceptances, Negotiable Certificates .....	40% maximum
of Deposit and/or Negotiable Bank	
Deposit Notes	
Commercial Paper.....	35% maximum
Non-Negotiable Certificates of Deposit.....	5% maximum
Corporate Notes and Bank Notes.....	25% maximum
Taxable Municipal Obligations.....	10% maximum

### **MATURITY LIMITATIONS**

The average dollar weighted maturity for the LGIP portfolio may not exceed 90 days. The final maturity of any individual security may not exceed 397 days from the time of purchase, except adjustable rate government securities may have a remaining maturity of up to 762 calendar days.

### **AMORTIZED COST VS MARKET-BASED VALUATION**

The LGIP shall strive to maintain a stable asset value per share of \$1.00 using the amortized cost method of valuation. If the LGIP's current market-based net asset value per share should deviate from its amortized cost price per share by an amount exceeding ½ of 1 percent, the State Treasurer, Chairman of the Treasury Board, shall assess the situation and determine what action, if any, is in the best interest of the LGIP and its participants.

### **SECURITIES LENDING**

The LGIP will be permitted to participate in the Department of the Treasury securities lending program pursuant to the current policy and guidelines adopted by the Treasury Board.

### **REPORTING**

Summary investment information, including a copy of the LGIP investment portfolio at current market, is reported to the Treasury Board on a monthly basis. Additional information will be provided if deemed appropriate or if requested.

# **MANAGEMENT AND COMPLIANCE**

## **INVESTMENT MANAGEMENT**

The Treasury Board of the Commonwealth of Virginia serves as investment adviser to the LGIP. Authority is granted pursuant to §2.2-4602 of the *Code of Virginia*. The Treasury Board, created by §2.2-2415 of the *Code of Virginia*, consists of the State Treasurer (Chair), the Comptroller, the Tax Commissioner, and four citizen members appointed by the Governor. The Treasury Board has delegated administration of the LGIP to the State Treasurer, subject to approved policies and guidelines. The State Treasurer is responsible for the direct management of approximately \$8.8 billion in investments; the development of cash management policies; forecasting cash receipts and disbursements; procurement of statewide banking services, issuance and management of Commonwealth debt; protection of the employees and assets of the Commonwealth, including political subdivisions and constitutional officers; administration of the Security for Public Deposits Act; and administration of the Unclaimed Property Act and Escheat statutes. The State Treasurer also serves as a member of eleven State boards and authorities.

The State Treasurer's investment staff, subject to approved policies and guidelines issued by the Treasury Board, makes investment decisions for the LGIP and executes orders to buy and sell securities on behalf of the LGIP. The State Treasurer has contracted with JPMorgan Chase Bank to provide Master Custody for the Commonwealth, including custody and specialized mutual fund services for the LGIP.

## **MAINTENANCE OF CONSTANT SHARE PRICE**

Shares are purchased and redeemed at their NAV which, barring extraordinary circumstances, will maintain the constant price of \$1.00 per share. Management procedures used to facilitate this end include minimizing market and credit risks while maintaining sufficient liquidity through investments in short-term, high quality credits that can readily be converted into cash with limited price variation.

## **MANAGEMENT FEES**

Pool participants are charged an all-inclusive six basis points annual management fee, which is calculated daily and deducted from the daily earnings accrual prior to distribution to participants. For example, the annual fee for each \$1,000 invested in the LGIP is \$0.60. The fee is totally transparent to participants.

## **SAFEKEEPING POLICIES**

Established safekeeping policies of the LGIP ensure that securities purchased by the State Treasurer's staff are held in a manner that maximizes the State Treasurer's ability to maintain control over such securities at all times. All security transactions are delivery versus payment (DVP); i.e., the custody bank will not release the funds to pay for purchased securities until securities are delivered, regardless of settlement date. LGIP securities are required to be held in the LGIP's custody account and kept separate from all securities owned by the bank. The ownership and title to such securities remain vested in the Treasurer of Virginia, the legal custodian of the securities. The Global Custody Department of JPMorgan Chase Bank holds LGIP securities in custody.

Repurchase Agreements are collateralized by obligations issued or guaranteed by the U. S. government, an agency thereof, or GSEs. A custodial bank holds the securities for the LGIP until the agreement(s) matures. Provisions of the repurchase agreement require the securities to be marked to market on a daily basis and the collateral is required to be at least 102% of the value of the repurchase agreement.

## **AUDIT AND COMPLIANCE**

The Virginia Auditor of Public Accounts examines the financial statements and per share data of the LGIP as of June 30 following the close of each fiscal year. The Auditor also assesses the accounting principles used and the management of the LGIP and evaluates the overall financial statement presentation. Based on the audit an opinion is issued. The audited financial statements and the Independent Auditor's Report are mailed to participants annually. The LGIP financial statements are issued in compliance with GASB Statement No. 31. In addition to the independent auditor's examination, the LGIP is included in the Department of the Treasury's internal audit plan.

The LGIP presents monthly performance data and portfolio market valuation to the Commonwealth Treasury Board for their review. Pricewaterhouse Coopers LLP has performed an Independent Type II Service Audit Report on the controls of JP Morgan Investor Services and Chase Global Funds Services Company (an affiliate of JPMorgan Chase Bank) applicable to the processing of transactions for the Fiduciary Operations. Pricewaterhouse Coopers issues a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness relevant to Fiduciary Operations Supporting Retirement Services, Securities Services and Securities Lending Clients within the Global Institutional Services Organization" (the "SAS 70 Document") upon completion of their audit. The latest report is available upon request.

# PARTICIPANT INFORMATION

## OPENING AN ACCOUNT

Shares of the LGIP investment portfolio are offered on a continuous basis to public entities of the Commonwealth of Virginia. Requests can be accepted until **10:00 a.m.** on the date of investment or redemption; however, participants are urged to contact the LGIP on the prior business day whenever practical. An account can be opened with an initial investment of \$1,000. Subsequent investments or redemptions can be made in any amount. A public unit can open as many accounts as needed to simplify record keeping. A properly completed application indicating all individuals authorized to transact for the account must be received for each account before a redemption can be honored. Applications should be mailed to:

LGIP  
C/O Treasurer of Virginia  
Cash Management and Investments, 4th Floor  
P. O. Box 1879  
Richmond, VA 23218-1879

## HOW TO INVEST IN THE LGIP

Investments can be made through any of the following methods:

1. By Wire: Funds received by wire are invested for same day credit when the LGIP staff is **notified prior to 10:00 a.m.** on the date of investment. Investments are made on the assumption that the funds will be received and your LGIP account is automatically credited without waiting for the actual receipt of the funds. If unavoidable circumstances prevent the transfer of funds, it will be necessary for the LGIP to deduct the interest accrued for that date from the account's monthly dividend distribution. In the event this is necessary the participant will always be contacted to discuss the circumstances and a follow up letter outlining the details will be provided. **Advise the LGIP staff by 10:00 a.m. of your daily investment transactions by calling (800) 643-7800, (804) 225-3166 or from the Richmond area 786-1156.**

Instruct your bank to wire federal funds in the amount of your investment to:

Bank of America  
ABA #0260-0959-3  
For credit to LGIP  
Account #00000223-6801  
FBO: Your Account Name and/or  
LGIP Fund Number

2. By Mail: Checks drawn on your bank account should be made payable to the LGIP and mailed as follow:

ATTN: PROCESS IMMEDIATELY  
LGIP  
C/O Treasurer of Virginia  
Cash Management and Investments, 4th Floor  
P. O. Box 1879  
Richmond, Virginia 23218-1879

Please be aware that investment by check will delay credit to your account and the anticipated loss in earnings should be compared with the cost of a wire.

3. Direct Deposit: Arrangements can be made for EDI transfers of funds from the State to be directly invested into your LGIP account. Your account will be automatically credited on the transfer date and the normal telephone advice to the LGIP is not required. Additional information regarding such investments may be obtained by calling the LGIP or by visiting the Department of Accounts online at <http://www.doa.virginia.gov/>.

### **HOW TO REDEEM A LGIP INVESTMENT**

Redemptions can be made on any banking day. There are **no redemption fees or withdrawal penalties**; however, the LGIP must have a current authorization form on file before a redemption can be honored. All redemptions are executed by wire transfer to the pre-established instructions on file with the LGIP.

Redemption requests will be honored in accordance with the instructions provided on the official LGIP application. **Requests for an exception to this policy must be submitted in writing and signed by the “Authorized Public Official” whose signature appears on the application.** Please call our office if you have any questions regarding this policy or if you need to add additional repetitive wire transfer instructions to your current application.

A redemption request can be made by either of the following methods:

1. By Telephone: All redemption requests received by the LGIP staff **prior to 10:00 a.m.** will be processed the same day. Federal funds will be wired to your authorized bank for credit to your account. **Redemption requests received after 10:00 a.m. will be processed the following business day.** Telephone calls should be made to the LGIP at 1-800-643-7800, 804-225-3166 or within the Richmond area at 786-1156.

2. By Letter: Redemption requests by letter must indicate the amount of the redemption, the LGIP account name and number, the requested payment date, and proper wire instructions for the payment. Requests must be signed by “the Authorized Public Official” as indicated on the official application. Fax or mail the request to:

ATTN: PROCESS IMMEDIATELY  
LGIP  
C/O Treasurer of Virginia  
Cash Management & Investments, 4th Floor  
P. O. Box 1879  
Richmond, Virginia 23218-1879  
Fax: (804) 225-3478

### **TRANSACTION SIZE**

An account may be opened with an initial investment of \$1,000. Subsequent transactions are not restricted in size. Participants are encouraged, however, to consider the cost effectiveness of small transfers.

### **TRANSFERS BETWEEN ACCOUNTS**

Inter-fund transfers between LGIP accounts may be arranged. Contact the LGIP staff to request a transfer between accounts.

### **CHANGE OF AUTHORIZATION**

The LGIP application permits the "Authorized Public Official" to delegate authority to other individuals to act on their behalf in communicating transaction information to the LGIP. If there is a change in the status of any of the authorized individuals, it is the responsibility of the “Authorized Public Official” to immediately notify the State Treasurer’s LGIP staff. Maintaining up-to-date records prevents possible delays in transfers and ensures the integrity of the program.

### **CLOSING AN ACCOUNT**

Participants should contact LGIP staff for assistance in closing an account.

### **DIVIDENDS AND DISTRIBUTIONS**

Net investment income is declared daily as a dividend to each participant account. Daily dividends are accrued throughout the month and automatically reinvested in additional shares.

### **MONTHLY STATEMENTS**

Statements are mailed to Participants on a monthly basis. Participants have the option to consolidate accounts on one statement or receive individual statements. Statements contain the following information.

- *Average Monthly Yield* is an arithmetic average of the "Daily Yields" for the period.
- *Effective Yield* assumes reinvestment of the monthly dividend at the current "Average Monthly Yield." It is slightly higher due to the effect of monthly compounding.
- *Investment Account Summary* lists all individual accounts and balances as of the statement date.
- *Account Year-to-Date Summary* is the calendar year-to-date summary of all Investments, Redemptions and Dividends by account.
- *Transaction Detail* lists individual transactions during the month and the accompanying daily account balances in date order.

## **COMMUNICATION WITH PARTICIPANTS**

The LGIP strives to provide ongoing communication between LGIP management and participants to assist them in evaluating their investment decisions and to keep participants abreast of information relative to the operation of the LGIP. To enhance communication a quarterly newsletter is mailed or emailed to participants, summarizing investment guideline compliance and performance, and providing a discussion of current issues relating to the management of public funds in general and the LGIP in particular. In addition, a copy of the LGIP investment portfolio at market value and original cost is furnished quarterly and at any other time upon request.

The LGIP web page provides the daily and 7-day yield, an interactive copy of the LGIP application, the "Investment Circular," LGIP Audited Financial Statements, the latest copy of the LGIP Newsletter and a FAQ section. To visit the LGIP on the web, go to Treasury's home page <http://www.trs.virginia.gov/>, scroll down and select the Local Government Investment Pool icon or go directly to the LGIP at <http://www.trs.virginia.gov/cash/lgip.asp>.

## INVESTMENT PERSONNEL

**Gregory A. Schnitzler** is the Director of Cash Management and Investments for the Department of the Treasury and has been in this position since 1982. He is a Chartered Financial Analyst and earned his undergraduate and graduate degrees in finance from Pace University and St. John's University, respectively. Mr. Schnitzler is an adjunct professor of finance at Virginia Commonwealth University and is Vice-Chairman of the City of Richmond Retirement System.

**Margaret H. Layne** is the Chief Investment Officer for the Department of the Treasury and has been in this position since 1982. She manages the Commonwealth's General Account investment portfolio and is responsible for the daily investment operations of the department. She holds a Bachelor of Science degree in Accounting from Virginia Polytechnic Institute and State University and a Master of Science degree in Finance from Virginia Commonwealth University. Ms. Layne was awarded the Chartered Financial Analyst designation in 1986.

**Belinda W. Blanchard** is the LGIP Portfolio Manager and has managed the overall program since 1985. She is a Chartered Financial Analyst and earned her Master of Business Administration and Bachelor of Science degree in Business from Virginia Commonwealth University. Ms. Blanchard serves on the Board of Directors of the Virginia Credit Union and is the chair of their asset/liability committee. She also serves as the Chair of the Endowment Fund of her church.

**Judith P. Milliron** is the Senior Investment Analyst. She is responsible for supervision of the shareholder side of the LGIP, oversight of the mutual fund accounting, reporting and compliance, and assisting the portfolio managers in the daily investment process. Ms. Milliron returns to the Investment Division after serving for three years in Treasury's Debt Management Division as a Senior Finance Analyst. She holds a Bachelor of Arts degree in Political Science from Virginia Commonwealth University.

**Kenneth P. VanAuken** is an Investment Accounting Manager and oversees the "Money" desk. He provides support to both the General Account portfolio manager and the LGIP program. He has been with the investment group since 1992 and has a Bachelor of Science degree in Economics from Virginia Commonwealth University.

**Mary S. Pratt** is the LGIP Client Service Analyst. She is responsible for the shareholder side of the LGIP. She joined the Investment Division in 2005 after serving as Assistant Manager of Trust Accounting for Treasury's Operations Division. She earned her Bachelor of Science degree in Business Administration from Longwood University.

# DIRECTORY

## ADMINISTRATION

Jody M. Wagner, State Treasurer  
J. Braxton Powell, Deputy State Treasurer

Members of the Treasury Board:

Jody M. Wagner, Chair  
K. David Boyer, Jr.  
Kenneth N. Daniels, Ph.D.  
Douglas W. Densmore  
Kenneth W. Thorson  
David Von Moll, CPA  
Wayne F. Wilbanks

## CASH MANAGEMENT AND INVESTMENTS

Gregory A. Schnitzler, CFA, Director  
Margaret H. Layne, CFA, Investment Officer  
Belinda W. Blanchard, CFA, LGIP Manager  
Kenneth P. Van Auken, Investment Accounting Manager  
Judith P. Milliron, Senior Investment Analyst  
Mary S. Pratt, LGIP Client Service Analyst

## ADDRESS

Street Address: Commonwealth of Virginia  
Department of the Treasury  
James Monroe Building  
101 North 14th Street, 4th Floor  
Richmond, Virginia 23219

Mailing Address: P. O. Box 1879  
Richmond, Virginia 23218-1879

Telephone Number: (800) 643-7800  
In Richmond 786-1156  
(804) 225-3166

Facsimile Number: (804) 225-3478

**SAMPLE**  
**LGIP STATEMENT**

Commonwealth of Virginia  
 State Treasurer, PO Box 1879  
 Richmond, VA 23218-1879



Local Government Investment Pool

650  
 ABC COUNTY TREASURERS OFFICE  
 GENERALFUND  
 123 MAIN ST  
 ABC VA 22222-2222

**Account Statement**

August 1, 2003 through August 29, 2003

Dealer Address  
 COUNTY OF ABC  
 123 MAIN ST  
 ABC VA 23601

DEALER NUMBER: ABCCO  
 BRANCH NUMBER: 000000  
 REP. NUMBER: HOUSE

ACCOUNT INFORMATION: 800-643-7800

Page 1 of 2

**Investment Account Summary**

	Account Total Number	Shares	Share Price	Fund Value	% of Holdings
ABC COUNTY TREASURERS OFFICE GENERAL	6300000000	10,762,355.660	\$1.00	\$10,762,355.66	100.000/0
TOTAL VALUE				\$10,762,355.66	100.000/0

**Account Year-to-Date Summary**

	Account Number	Investments	Redemptions	Dividends	Capital Gains
ABC COUNTY TREASURERS OFFICE GENERAL FUND	6300000000	\$30,740,855.45	\$29,175,089.16	\$73,560.45	\$0.00
TOTAL VALUE		\$30,740,855.45	\$29,175,089.16	\$73,560.45	\$0.00

**Transaction Detail**

Trade Date	Transaction	Dollar Amount	Price	Shares	Total Shares
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ABC COUNTY TREASURERS OFFICE  
 GENERAL

ACCOUNT NUMBER: 6300000000

	BALANCE FORWARD				12,534,756.190
08/04/03	REDEMPTION-WIRE	\$400,000.00-	\$1.00	400,000.000-	12,134,756.190
08/05/03	PURCHASE BY WIRE	\$91,098.37	\$1.00	91,098.370	12,225,054.560
08/06/03	PURCHASE BY WIRE	\$3,200.00	\$1.00	3,200.000	12,229,054.560
08/08/03	PURCHASE BY WIRE	\$2,574.16	\$1.00	2,574.160	12,231,628.720
08/11/03	PURCHASE BY WIRE	\$67,319.95	\$1.00	67,319.950	12,298,948.670
08/12/03	PURCHASE BY WIRE	\$792.50	\$1.00	792.500	12,299,741.170
08/13/03	PURCHASE BY WIRE	\$27,044.86	\$1.00	27,044.860	12,326,786.030
08/15/03	PURCHASE BY WIRE	\$1,273,482.52	\$1.00	1,273,482.520	13,600,268.550

# LGIP

## Local Government Investment Pool

### Account Statement

August 1, 2003 through August 29, 2003

ABC COUNTY TREASURERS OFFICE  
GENERAL FUND  
123 MAIN ST  
ABC VA 22222-2222

Page 2 of 2

### Transaction Detail

Trade Date	Transaction	Dollar Amount	Price	Shares	Total Shares
08/18/03	PURCHASE BY WIRE	\$485.78	\$1.00	485.780	13,600,754.330
08/19/03	PURCHASE BY WIRE	\$18,213.35	\$1.00	18,213.350	13,618,967.680
08/22/03	PURCHASE BY WIRE	\$197,736.94	\$1.00	197,736.940	13,816,704.620
08/25/03	PURCHASE BY WIRE	\$12,781.21	\$1.00	12,781.210	13,829,485.830
08/26/03	REDEMPTION-WIRE	\$200,000.00-	\$1.00	200,000.000-	13,629,485.830
08/26/03	PURCHASE BY WIRE	\$6,601.66	\$1.00	6,601.660	13,636,087.490
08/28/03	REDEMPTION-WIRE	\$3,800,000.00-	\$1.00	3,800,000.000-	9,836,087.490
08/29/03	PURCHASE BY WIRE	\$1,415,016.41	\$1.00	1,415,016.410	11,251,103.900
08/29/03	REDEMPTION-WIRE	\$500,000.00-	\$1.00	500,000.000-	10,751,103.900
08/29/03	DIV REIN	\$11,251.76	\$1.00	11,251.760	10,762,355.660
	ENDING BALANCE	\$10,762,355.66	\$1.00		10,762,355.660

THE AVERAGE MONTHLY YIELD FOR AUGUST 2003 WAS 1.0467%.  
THE EFFECTIVE MONTHLY YIELD FOR AUGUST 2003 WAS 1.0518%.

Application Form  
**LOCAL GOVERNMENT INVESTMENT POOL**

Commonwealth of Virginia  
Department of the Treasury  
P. O. Box 1879  
Richmond, Va 23218-1879  
Local (804) 786-1156 or (800) 643-7800  
Fax (804) 225-3478

( ) New Account ( ) Account Change Date \_\_\_\_\_

Public Unit Name \_\_\_\_\_

Account Name \_\_\_\_\_

Mailing Address \_\_\_\_\_

\_\_\_\_\_

Telephone Number \_\_\_\_\_ Tax Identification Number \_\_\_\_\_

Fax Number \_\_\_\_\_ E-mail address \_\_\_\_\_

I, \_\_\_\_\_, \_\_\_\_\_  
Name & Title of Authorized Public Official (Type or Print) Signature

of \_\_\_\_\_, am the duly authorized public official charged with the duty of handling public funds for the aforementioned public unit. Pursuant to such authority, I am authorized to delegate and have delegated to the following persons the authority to communicate with the State Treasurer's office to advise of local decisions to deposit or withdraw funds from the Local Government Investment Pool, including myself:

- 1. \_\_\_\_\_  
\_\_\_\_\_  
(Title)
- 2. \_\_\_\_\_  
\_\_\_\_\_  
(Title)

The State Treasurer's office is hereby authorized to make deposits or withdrawals from this public unit's account upon receipt of telephone instructions from the above named individual(s), who will identify themselves by name, public unit, and assigned identification number. Such individuals are authorized to act for this public unit until their authority is revoked by written notice to the State Treasurer's office, which notice will be effective upon receipt.

**WITHDRAWAL WIRE TRANSFER INSTRUCTIONS:**

I hereby authorize the Commonwealth of Virginia LGIP to act upon instructions received by telephone to have amounts withdrawn from my account in the LGIP and wired to the bank account designated below. **Exceptions to these instructions can only be accepted if requested in writing and signed by the above named "Authorized Public Official".**

- 1. Name of Bank \_\_\_\_\_  
ABA # \_\_\_\_\_ Account Number \_\_\_\_\_  
Account Name \_\_\_\_\_  
Bank Address \_\_\_\_\_
- 2. Name of Bank \_\_\_\_\_  
ABA # \_\_\_\_\_ Account Number \_\_\_\_\_  
Account Name \_\_\_\_\_  
Bank Address \_\_\_\_\_

# **TOBACCO INDEMNIFICATION AND COMMUNITY REVITALIZATION ENDOWMENT**



## **ENDOWMENT FUND INVESTMENT GUIDELINES Statement of Investment Policies and Goals**

**Adopted By The Treasury Board  
July 20, 2005  
Effective August 1, 2005**

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## **DEFINITIONS**

Throughout this Statement of Investment Policy and Goals, the following definitions will apply:

"AMT Bond" means a "specified private activity bond" as defined in Section 57(a)(5)(C) of the Tax Code, the interest on which is a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

"Commission" means the Tobacco Indemnification and Community Revitalization Commission created pursuant to §3.1-1107 of the Code of Virginia.

"Commission Allocation" means 50% of the annual amount received under the Master Settlement Agreement by the Commonwealth of Virginia, or that would have been received but for a sale of such allocation pursuant to an agreement, between the commencing and ending dates specified in the agreement.

"Corpus" of the Endowment means at the time of determination, the sum of the proceeds from the sale of all or any portion of the Commission Allocation, any gifts, grants and contributions that have been credited to such Endowment, and any income not appropriated and withdrawn from the Endowment prior to June 30 of each year, less withdrawals from the Corpus. Determinations by the Treasury Board, or the State Treasurer on behalf of the Treasury Board, as to the amount of Income or the amount of Corpus shall be conclusive.

"Endowment" means the Tobacco Indemnification and Community Revitalization Endowment Established pursuant to §3.1-1109.1 of the Code of Virginia.

"Expenses" means the expenses of making and disposing of investments, such as brokerage commissions, legal expenses related to a particular transaction, investment advisory and management fees and expenses, transfer taxes, custody fees and other customary transactional expenses.

"Fund" means the Tobacco Indemnification and Community Revitalization Fund established pursuant to §3.1-1111 of the Code of Virginia.

"Income" refers to, at the time of determination, the lesser of the available cash in, or the realized investment income for the applicable period of, the Endowment. Determinations by the Treasury Board, or the State Treasurer on behalf of the Treasury Board, as to the amount of Income shall be conclusive.

"Master Custodian" refers to the bank procured by the State Treasury to provide traditional custody and related services. Section 2.2-1807 of the Code of Virginia charges the State Treasurer with the custody of all investments and invested funds of the Commonwealth or in possession of the Commonwealth in a fiduciary capacity and with the keeping of the accounts of such investments.

"Series 2005 Bonds" means the \$448,260,000 Tobacco Settlement Financing Corporation Tobacco Settlement Asset-Backed Bonds, Series 2005, which were issued on May 16, 2005, on a tax-exempt basis and \$389,776,674.47 of the proceeds of which were used to purchase 50% of the Commission Allocation to be received from May 15, 2005, through May 14, 2104.

"Tax Certificate" refers to the Tax Certificate and Agreement dated May 16, 2005 among the Tobacco Settlement Financing Corporation, the Tobacco Indemnification and Community Revitalization Commission, the Treasury Board of the Commonwealth of Virginia and the State Treasurer of the Commonwealth of Virginia, which was executed and delivered in connection with the issuance of the Series 2005 Bonds.

"Tax Code" means the Internal Revenue Code of 1986, as amended, and the applicable provisions of the regulations of the U.S. Department of Treasury promulgated thereunder.

"Tax-Exempt Bond" means any bond, note or other obligation the interest on which is excludable from gross income under Section 103(a) of the Code, but shall not include an AMT Bond. In other words, for purposes of this definition, a Tax-Exempt Bond is a so-called "non-AMT" bond. By way of example and not of limitation, a Tax-Exempt Bond may be in the form of a general obligation bond, a revenue bond, a subject-to-appropriation or moral obligation bond, commercial paper, a tax, revenue or bond anticipation note, or a so-called "qualified 501(c)(3)" bond or note.

"Tax-Exempt Mutual Fund" means an interest in a regulated investment company to the extent that at least 95 percent of the income to the holder of such interest constitutes interest that is derived from Tax-Exempt Bonds. A money market fund may fall within this definition if it otherwise qualifies.

"TICR II Fund" means an account on the books of the Department of Accounts and will continue to be invested in accordance with these guidelines and the Tax Certificate pending receipt of a duly authorized requisition from the Commission requesting reimbursement for authorized expenditures from the Fund. For all purposes hereof, the "TICR II Fund" constitutes part of the Endowment.

## **OVERVIEW**

The Endowment shall be under the management and control of the Treasury Board of the Commonwealth of Virginia. The Endowment shall receive any proceeds from any sale of all or any portion of the Commission Allocation, and any gifts, grants and contributions that are specifically designated for inclusion in such Endowment. No part of the Endowment, neither Corpus nor Income, or interest thereon, shall revert to the general fund of the State Treasury.

This document sets forth the responsibilities of the Treasury Board and its investment managers relating to the implementation of the investment policy, asset strategy, evaluation and review of investment performance and progress toward attaining goals.

### **Treasury Board Responsibilities**

1. The Treasury Board shall serve as trustee of the Endowment and the Corpus and Income of the Endowment shall be withdrawn and credited to the Fund by order of the Treasury Board.
2. The Treasury Board shall have full power to invest and reinvest funds credited to the Endowment in accordance with the provisions of the Uniform Management of Institutional Funds Act (§ 55-268.1 et seq.) and, in addition, as otherwise provided by law.
3. The Treasury Board may borrow money in such amounts as may be necessary whenever in its judgment it would be more advantageous to borrow money than to sell securities held for the Fund. Any debt so incurred may be evidenced by notes duly authorized by resolution of the Treasury Board, such notes to be retired no later than the end of the biennium in which such debt is incurred.
4. The Treasury Board may commingle, for purposes of investment, the Corpus of the Endowment provided that it shall appropriately account for the investments credited to the Endowment.
5. The Treasury Board may hire independent investment advisors and managers as it deems appropriate to assist with investing the Endowment. Expenses shall be payable out of the available cash in, or the realized investment income for the applicable period of, the Endowment.

## **Endowment Objectives**

Investments should be made in a manner which will provide the highest investment return with the maximum security while meeting the annual cash flow demands of the Endowment and conforming to all statutes and regulatory requirements governing the investment of the Fund. No investment shall be made to cause the interest on the Series 2005 Bonds to be deemed taxable. Determinations by the Treasury Board, or the State Treasurer on behalf of the Treasury Board, as to the amount of Income or the amount of the Corpus shall be conclusive. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

In order to maintain the tax-exempt status of the Series 2005 Bonds, Section 149(g) of the Tax Code requires that at least 95 percent of the unexpended net proceeds of such bonds be continuously invested in Tax-Exempt Bonds or Tax-Exempt Mutual Funds. The Treasury Board has determined that all of the Corpus and Income of the Endowment will be invested in Tax-Exempt Bonds or Tax-Exempt Mutual Funds.

The Income of the Endowment shall be paid out at least annually to the Fund. In addition, up to 10% of the Corpus of the Endowment shall be paid to the Fund annually upon request by resolution of the Commission to the Treasury Board; provided, however, that upon two-thirds vote of the Commission, up to 15% of the Corpus of the Endowment shall be so paid. No use of proceeds shall be made that would cause the interest on the Series 2005 Bonds to be deemed taxable.

Due to limitations imposed by the Tax Certificate, Income and Corpus paid out from the Endowment shall be credited to the "TICR II Fund".

## **POLICY GUIDELINES**

### **Endowment Structure**

In order to meet the Endowment objectives, the Endowment will be split between two types of accounts.

The Endowment will be externally managed by investment advisors that specialize in the investment management of tax-exempt securities. The objectives of the Endowment are to (i) be fully invested at all times in either Tax-Exempt Bonds or Tax-Exempt Mutual Funds and (ii) generate a net of fee investment return, over the long-term, higher than the return of the appropriate benchmark. To generate higher investment returns, it is recognized that additional interest rate risk, within prudent constraints, must be assumed in the management of the Endowment. To further control these risks, and to provide for sufficient management flexibility, the Endowment may be structured into two sub-portfolios: a Short Duration Tax-Exempt Portfolio and an Intermediate Duration Tax-Exempt Portfolio. Additionally, a money market Tax-Exempt Mutual Fund may be used to cover short-term disbursements. This money market fund will be under the control of the Treasury. In seeking higher investment returns, the portfolio managers of the Endowment will be cognizant of the Treasury Board's objectives of safety of principal and liquidity.

### **Asset Mix Policy**

The allocation guidelines for the Endowment are:

	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Tax-Exempt Money Market Fund	5%	0%	25%
Short Duration Tax-Exempt Portfolio	25%	10%	40%
Intermediate Duration Tax-Exempt Portfolio	70%	60%	80%

The intent of the Asset Mix Policy is to increase the overall average maturity of the Endowment to enhance the returns over the long-term. Deviations from the allocation targets for the Endowment, and from the guidelines for the Endowment listed below, may be made by the Treasury Investment Staff, when liquidity needs warrant, or when the Treasury Staff determines that the aggregate deviation does not constitute a material departure from the spirit of the target allocation and the intent of the Treasury Board. The Treasury Investment Staff shall review the target allocations and guidelines at least annually.

## **Investment Guidelines and Restrictions**

### Authorized Investments for the Endowment

Funds in the Endowment may be invested and reinvested in accordance with the Uniform Management of Institutional Funds Act (§ 55-268.1 et seq. of the Code of Virginia). The following investments are permitted:

1. Short-Term Tax-Exempt Cash Equivalents: Commercial paper falling within the definition of Tax-Exempt Bonds and money market Tax-Exempt Mutual Funds.
2. Tax-Exempt Bonds issued by states, political subdivisions, and agencies of the fifty United States, D.C. and its territories.

### Credit Quality

The State Treasurer will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the following credit quality limitations at time of purchase. Should a security fail to meet the following credit quality limitations after purchase (i.e., credit downgrades), the external manager shall notify the Treasury Investment Officer or Director and the Investment Consultant in writing within one business day, of each security that fails to meet the credit quality limitations. Such security must then be sold within 60 calendar days, or earlier if so directed by Treasury Investment Staff, unless the manager's reasoning to continue to hold the security is approved in writing by the State Treasurer.

The portfolio should maintain a weighted average portfolio rating of AA/Aa2 or better. Long-term Tax-Exempt Bonds must be rated A or better by two nationally recognized rating agencies (one of which must be either Moody's Investors Service or Standard & Poor's). This includes all levels of the "A" rating. Split-rated securities shall be assumed to have the lower credit grade and single-rated securities are not permitted.

Money market and other short-term investments, including tax-exempt commercial paper, must be rated a minimum of A-1/P-1 or comparable by Standard & Poor's and Moody's Investor Services, respectively.

Diversification

The State Treasurer will diversify investments by security type and by issue and the following shall apply for each manager:

1. Each portfolio will be diversified with no more than 5% of the value of the fund invested in the securities of any single issuer.
2. The maximum percentage of each portfolio within the Endowment in each sector is as follows:

General Obligation Bonds	75%
Revenue Bonds	60%
Non Prerefunded Bonds (within any one state)	25%
Prerefunded Bonds*	10%
All Other Types of Tax-Exempt Bonds	10%
Money Market Funds (excluding transitional cash and tax-exempt money market funds funds controlled by the Treasury)	10%

\* Prerefunded bonds are permitted provided that their re-rated investment quality meets requirements as stated herein or their original rating meets investment quality requirements as stated herein.

3. The maximum percentage of each portfolio within the Endowment in each state is as follows:

Single State	15%
Top Five States	50%

4. The minimum issue size per portfolio is \$2 million.

Prohibited Investments or Actions

Any investment other than Tax-Exempt Bonds or Tax-Exempt Mutual Funds.

## Duration Limitations

To the extent necessary, the State Treasurer will attempt to match investments with anticipated cash requirements. Additional funds will be invested at maturities determined to be most beneficial to the portfolio. The following duration limitations shall apply:

1. The maximum duration for any single Tax-Exempt Bond may not exceed 15 years at time of purchase. In the event the duration subsequently exceeds these limits, the investment advisor shall notify the Treasury Investment Officer or Director and the Investment Consultant who shall determine whether the security should be sold.
2. The target duration (years) for the Endowment is as follows:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Endowment	3.3	4.5	5.5
Short Duration Tax-Exempt Portfolio	1.5	2.0	2.5
Intermediate Duration Tax-Exempt Portfolio	3.9	5.2	6.5

3. The Asset Mix Policy and the target duration guidelines shall be reviewed at least annually by the Treasury Investment Staff, and if appropriate, amended at such times, as the Treasury board shall determine.

For purposes of this section, duration shall be defined as the industry standard modified duration as calculated by Bloomberg.

**Endowment Benchmarks**

<u>Endowment:</u>	Composite weighted 5% to the current yield on the Tax-Exempt Money Market Fund, 25% Short Duration Tax-Exempt benchmark, 70% Intermediate Duration Tax-Exempt benchmark
<u>Short Duration Tax-Exempt Portfolio:</u>	Lehman Brothers 1-3 Year Municipal Bond Index
<u>Intermediate Duration Tax-Exempt Portfolio:</u>	Lehman Brothers 5-10 Year Municipal Bond Index

All Endowment benchmarks will be reviewed annually, and adjusted based upon changes in the Endowment's Structure and/or changes in its objectives.

## **STANDARDS OF INVESTMENT PERFORMANCE**

Performance results for the Endowment, and for each component, shall be time-weighted and measured net of investment management fees. Volatility risk shall be measured by the standard deviation of annualized quarterly returns.

### **STANDARDS OF INVESTMENT PERFORMANCE**

	<b>Relative Standard (5 years)</b>
<b>Endowment</b>	Exceed the Endowment benchmark by 10 basis points
	Volatility should not exceed 120% of the Endowment benchmark
<b>Short Duration Tax-Exempt Portfolio</b>	Exceed the Short Duration Tax-Exempt Portfolio benchmark by 10 basis points
	Volatility should not exceed 115% of the Short Duration Tax-Exempt Portfolio benchmark
<b>Intermediate Duration Tax-Exempt Portfolio</b>	Exceed the Intermediate Duration Tax-Exempt Portfolio benchmark by 10 basis points
	Volatility should not exceed 125% of the Intermediate Duration Tax-Exempt Portfolio benchmark

## **REPORTING REQUIREMENTS**

### **Treasury Responsibilities**

The State Treasurer is charged with the responsibility of reporting to the Treasury Board on a quarterly basis. These reports will include investment performance information, security holdings by manager, and security market values by manager. The State Treasurer has contracted with the Master Custodian to run compliance reports on the external investment portfolios. These compliance reports are comprised of various screens or tests of both individual security and total portfolio guidelines. Any significant or continuing problems will be reported to the Treasury Board. Additional information will be provided if deemed appropriate or if requested. This Statement of Investment Policy & Goals shall be reviewed at least annually by the Treasury Staff and, if appropriate, amended at such times, as the Treasury Board shall determine.

### **Investment Consultant Responsibilities**

The investment consultant shall have the responsibility to:

1. Prepare a quarterly performance evaluation that details the performance, asset allocation and compliance with these guidelines for each manager and the combined Endowment.
2. Make an annual report to the Treasury Board.

### **Investment Manager Responsibilities**

Each investment manager shall have the responsibility to:

1. Within 30 days of each month-end, reconcile all transactions, market values, security holdings, and cash flows with the Endowment's Master Custodian and provide a written report to the Custodian, with a copy to the Treasury Staff and Investment Consultant of all areas of discrepancy or disagreement with the Master Custodian.
2. Report monthly performance against the benchmarks established for the account by the tenth business day of the following month to the Investment Consultant. Provide quarterly written or electronic reports concerning investment strategy and economic and investment outlook by the end of the following month.
3. Provide a quarterly accounting of any professional staff turnover that would impact this relationship. Any material event that has an impact on the ownership of the investment organization or the management of this account must be reported immediately to Treasury Investment Staff and the Investment Consultant
4. Attend an annual meeting of all external portfolio managers, the Treasury Staff, and the Investment Consultant to review the current economic and market conditions, economic and market outlook, and the investment policies and goals of the Endowment.

## VA GENERAL ACCOUNT

Audited Market Value

As of June 30, 2005

Description	Security	Coupon Rate	Maturity Date	Price (Base)	Shares/Par	Cost (Base)	Amortized Cost	Traded Market Value
<b>Government Bond</b>								
FEDERAL HOME 3% 08/05	3133MQST2	3.0000	8/15/2005	99.9380	44,860,000.00	44,908,771.20	44,869,962.29	44,832,186.80
FEDERAL HOME 3.25% 08/05	3133MQ3S1	3.2500	8/15/2005	99.9690	25,730,000.00	25,866,883.60	25,752,307.63	25,722,023.70
FEDERAL HOME 1.75% 08/05	3133X0E96	1.7500	8/15/2005	99.7810	70,000,000.00	69,854,770.00	69,983,252.05	69,846,700.00
FED HM LN MTG 1.5% 08/05	3134A4TX2	1.5000	8/15/2005	99.7500	43,025,000.00	42,679,619.75	42,952,912.17	42,917,437.50
FEDERAL HOME 1.5% 08/05	3133X4E80	1.5000	8/19/2005	99.7500	16,950,000.00	16,788,466.50	16,929,043.78	16,907,625.00
FEDERAL HOME 1.5% 08/05	3133X4KJ9	1.5000	8/26/2005	99.6880	25,000,000.00	25,027,750.00	25,003,049.56	24,922,000.00
FEDERAL HOME 2.25% 08/05	3133X8H47	2.2500	8/30/2005	99.8130	20,000,000.00	19,972,080.00	19,994,426.74	19,962,600.00
FEDERAL HOME 2.125% 09/05	3133X8PN6	2.1250	9/15/2005	99.7190	10,000,000.00	9,989,900.00	9,997,860.67	9,971,900.00
FEDERAL 1.875% 09/05	31359MTB9	1.8750	9/15/2005	99.6560	39,765,000.00	39,522,754.19	39,710,114.15	39,628,208.40
FEDERAL NATL ZERO 09/05	313589LX9	-	9/19/2005	99.3583	25,000,000.00	24,526,736.11	24,839,571.56	24,839,571.56
FEDERAL HOME 2.125% 09/05	3133X8RK0	2.1250	9/20/2005	99.6880	20,000,000.00	19,901,400.00	19,973,768.76	19,937,600.00
FEDL HOME LN ZERO 09/05	313397LY5	-	9/20/2005	99.3138	25,000,000.00	24,582,743.06	24,828,437.50	24,828,437.50
FEDERAL HOME 2.25% 10/05	3133X92X7	2.2500	10/18/2005	99.6250	20,000,000.00	19,889,100.00	19,957,367.14	19,925,000.00
FEDERAL HOME 2.25% 10/05	3133X95J5	2.2500	10/21/2005	99.6250	25,000,000.00	24,874,250.00	24,957,325.43	24,906,250.00
FEDERAL NATL MTG 2% 10/05	3136F4NH3	2.0000	10/28/2005	99.5310	15,000,000.00	15,000,000.00	15,000,000.00	14,929,650.00
FEDERAL HOME 3.625% 11/05	3133MJX47	3.6250	11/15/2005	100.0310	15,000,000.00	15,090,630.00	15,037,754.93	15,004,650.00
FEDERAL HOME 2.5% 11/05	3133MTL89	2.5000	11/15/2005	99.6250	19,960,000.00	19,882,694.92	19,927,796.12	19,885,150.00
FEDERAL HOME 2.125% 11/05	3133X2BY0	2.1250	11/15/2005	99.5000	40,000,000.00	40,096,600.00	40,020,179.08	39,800,000.00
FEDERAL HOME 2.3% 11/05	3128X16Q5	2.3000	11/17/2005	99.4690	25,000,000.00	25,110,725.00	25,023,335.44	24,867,250.00
FHLMC MTN DUE 2.5% 11/05	3128X2AV7	2.5000	11/25/2005	99.4360	10,000,000.00	10,044,272.80	10,009,015.09	9,943,600.00
FEDL HOME LN ZERO 11/05	313397PX3	-	11/30/2005	98.7502	22,418,000.00	21,822,627.74	22,137,824.82	22,137,824.82
FEDERAL NATL ZERO 12/05	313589QG1	-	12/9/2005	98.6423	54,815,000.00	53,360,395.23	54,070,771.28	54,070,771.28
FEDERAL HOME 2.5% 12/05	3133MUMU6	2.5000	12/15/2005	99.5000	15,500,000.00	15,429,490.50	15,465,710.05	15,422,500.00
FNMA 6% 12/05	31359MGM9	6.0000	12/15/2005	101.0630	25,000,000.00	25,624,750.00	25,325,368.80	25,265,750.00
FEDERAL NATL 2.375% 12/0	31359MVJ9	2.3750	12/15/2005	99.4380	10,000,000.00	9,962,400.00	9,987,438.69	9,943,800.00
FEDL HOME LN ZERO 12/05	313397RD5	-	12/30/2005	98.3913	25,000,000.00	24,317,195.83	24,597,830.55	24,597,830.55
FEDL HOME LN ZERO 01/06	313397RP8	-	1/9/2006	98.3573	25,000,000.00	24,283,472.22	24,589,333.33	24,589,333.33
FEDL HOME LN ZERO 01/06	313397RQ6	-	1/10/2006	98.2469	25,000,000.00	24,300,583.33	24,561,729.16	24,561,729.16
FEDERAL HOME 2.375% 01/06	3128X2LT0	2.3750	1/23/2006	99.2600	10,000,000.00	10,000,000.00	10,000,000.00	9,926,000.00
FREDDIE MAC 2.01% 01/06	3128X2PN9	2.0100	1/27/2006	99.0400	41,000,000.00	40,961,875.00	40,988,939.39	40,606,400.00
FEDERAL NATL VAR 01/06	3136F43R3	2.5000	1/27/2006	99.3130	50,000,000.00	50,000,000.00	50,000,000.00	49,656,500.00
FEDERAL NATL ZERO 01/06	313589SH7	-	1/27/2006	98.1369	50,000,000.00	48,491,927.09	49,068,463.01	49,068,463.01
FEDERAL HOME 2.81% 02/06	3128X3SS3	2.8100	2/2/2006	99.4750	25,000,000.00	24,866,000.00	24,899,507.25	24,868,750.00
FANNIE MAE 2.03% 02/06	3136F43K8	2.0300	2/9/2006	99.0000	17,000,000.00	17,000,000.00	17,000,000.00	16,830,000.00
FEDERAL HOME 5.375% 02/06	3133MD6L2	5.3750	2/15/2006	100.9380	20,000,000.00	20,742,000.00	20,357,384.69	20,187,600.00
FEDERAL HOME 2.375% 02/06	3133MW2M2	2.3750	2/15/2006	99.1880	75,000,000.00	75,250,535.02	75,072,741.28	74,391,000.00
FEDERAL HOME 2.25% 02/06	3128X2WP6	2.2500	2/17/2006	99.0880	10,000,000.00	10,000,000.00	10,000,000.00	9,908,800.00
FEDERAL HOME LN 2% 02/06	3128X2ZC2	2.0000	2/23/2006	98.9060	10,000,000.00	9,980,000.00	9,993,354.71	9,890,600.00
FEDERAL NATL ZERO 02/06	313589TM5	-	2/24/2006	97.6597	20,000,000.00	19,349,033.33	19,531,933.33	19,531,933.33
FEDERAL HOME LN 2% 02/06	3133X4EB3	2.0000	2/27/2006	98.9060	40,000,000.00	39,987,500.00	39,995,834.11	39,562,400.00
FEDERAL HOME LN 2% 02/06	3128X2E43	2.0000	2/28/2006	98.8750	10,000,000.00	10,000,000.00	10,000,000.00	9,887,500.00
FEDL HOME LN ZERO 03/06	313397UG4	-	3/15/2006	97.4400	20,000,000.00	19,305,800.00	19,487,750.84	19,488,000.00
FEDERAL HOME 2.5% 03/06	3133X8SY9	2.5000	3/30/2006	99.0940	45,000,000.00	44,541,500.00	44,646,905.66	44,592,300.00
FEDERAL HOME 2.125% 05/06	3133MYRT6	2.1250	5/15/2006	98.6250	80,000,000.00	80,599,800.00	80,184,514.34	78,900,000.00
FEDERAL HOME LN VAR 05/06	3128X1CX3	2.7000	5/19/2006	99.0890	5,000,000.00	5,000,000.00	5,000,000.00	4,954,450.00
FEDERAL HOME 2.8% 05/06	3128X3EM1	2.8000	5/19/2006	99.1570	20,000,000.00	19,922,000.00	19,964,983.26	19,831,400.00

## VA GENERAL ACCOUNT

Audited Market Value

As of June 30, 2005

Description	Security	Coupon Rate	Maturity Date	Price (Base)	Shares/Par	Cost (Base)	Amortized Cost	Traded Market Value
FEDERAL HOME 2.13% 05/06	3133MYWG8	2.1300	5/19/2006	98.5940	10,000,000.00	9,996,875.00	9,999,059.22	9,859,400.00
FEDERAL HOME 2.875% 05/06	3133X9J43	2.8750	5/23/2006	99.2190	25,000,000.00	24,810,500.00	24,838,159.45	24,804,750.00
FEDERAL NATIONAL 2% 06/06	3136F3XU5	2.0000	6/9/2006	98.3750	20,000,000.00	19,993,750.00	19,998,001.39	19,675,000.00
FEDERAL HOME 2.05% 07/06	3128X1RW9	2.0500	7/14/2006	98.2560	10,000,000.00	9,998,000.00	9,999,295.47	9,825,600.00
FED HOME LOAN MTG	3134A4GK4	5.5000	7/15/2006	101.7190	25,000,000.00	25,442,250.00	25,425,614.58	25,429,750.00
FEDERAL NATL 2.75% 08/06	31359MSV6	2.7500	8/11/2006	98.8750	23,400,000.00	23,120,838.00	23,134,376.62	23,136,750.00
FEDERAL NATL VAR 08/06	3136F57E5	2.5000	8/25/2006	99.5630	46,937,000.00	46,937,000.00	46,937,000.00	46,731,885.31
FEDERAL HOME 3.625% 09/06	3128X36U2	3.6250	9/15/2006	99.8130	65,206,000.00	64,975,675.56	64,997,132.87	65,084,064.78
FEDERAL HOME 3% 09/06	3128X3WQ2	3.0000	9/29/2006	98.8210	50,000,000.00	49,521,375.00	49,523,898.97	49,410,500.00
FEDERAL HOME 3.75% 09/06	3133XBBQ7	3.7500	9/29/2006	99.9380	25,000,000.00	24,988,750.00	24,989,550.83	24,984,500.00
FEDERAL HOME 2.1% 10/06	3133X5RC4	2.1000	10/13/2006	97.9380	50,000,000.00	48,802,750.00	48,938,321.82	48,969,000.00
FEDERAL HOME 2.15% 12/06	3128X1JT5	2.1500	12/13/2006	97.6950	10,000,000.00	9,958,600.00	9,982,213.26	9,769,500.00
FEDERAL NATL 3.125% 12/06	3136F4F58	3.1250	12/29/2006	99.0000	10,000,000.00	10,000,000.00	10,000,000.00	9,900,000.00
FEDERAL HOME LN VAR 02/07	3128X2QN8	3.1250	2/9/2007	98.9560	10,000,000.00	10,000,000.00	10,000,000.00	9,895,600.00
FEDERAL HOME 4% 04/07	3133XBNF8	4.0000	4/25/2007	100.0940	28,000,000.00	28,000,000.00	28,000,000.00	28,026,320.00
FEDERAL NATIONAL 4% 05/07	31359MC27	4.0000	5/9/2007	100.0940	25,000,000.00	24,976,562.50	24,978,188.19	25,023,500.00
FEDERAL HOME 4% 06/07	3133XBXU4	4.0000	6/13/2007	100.0630	20,000,000.00	20,000,000.00	20,000,000.00	20,012,600.00
FEDERAL HOME 4.05% 06/07	3128X4DG3	4.0500	6/28/2007	100.1350	25,000,000.00	24,996,093.75	24,996,109.12	25,033,750.00
FEDERAL HOME 3.875% 09/07	3133XBUE3	3.8750	9/14/2007	99.9380	10,000,000.00	9,973,500.00	9,973,960.53	9,993,800.00
FEDERAL HOME 4.25% 05/08	3133XBSD8	4.2500	5/16/2008	100.0000	20,000,000.00	19,992,400.00	19,992,676.05	20,000,000.00
FEDERAL HOME 4.25% 06/08	3128X4DA6	4.2500	6/23/2008	99.8810	25,000,000.00	25,000,000.00	25,000,000.00	24,970,250.00
FED HM LN MTG 2.05% 11/08	3128X1EQ6	2.0500	11/28/2008	99.4020	30,000,000.00	30,035,937.50	30,022,779.45	29,820,600.00
FEDERAL NATL STEP 03/09	3136F5JM4	3.0000	3/23/2009	98.6560	20,000,000.00	20,000,000.00	20,000,000.00	19,731,200.00
FEDERAL NATL 4.2% 06/09	31359MD67	4.2000	6/8/2009	100.2190	20,000,000.00	20,000,000.00	20,000,000.00	20,043,800.00
					<b>1,889,566,000.00</b>	<b>1,880,229,889.73</b>	<b>1,883,422,136.46</b>	<b>1,876,381,596.03</b>
<b>Corporate Bond</b>								
BANK AMER N A 3.1% 07/05	06050VPF8	3.1000	7/15/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
BANK AMER N A 2.93% 08/05	06050VLR6	2.9300	8/9/2005	99.9600	45,000,000.00	45,000,000.00	45,000,000.00	44,982,000.00
BANK AMER N A 3.19% 08/05	06050VPU5	3.1900	8/16/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
GENERAL 6.8% 11/05	36962GVM3	6.8000	11/1/2005	101.0020	10,000,000.00	11,035,000.00	10,115,349.19	10,100,200.00
BANK AMER N A 3.56% 12/05	06050VQE0	3.5600	12/16/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
GENERAL ELECTRIC 2% 01/06	36962GF82	2.0000	1/30/2006	99.0040	25,000,000.00	25,008,750.00	25,002,573.62	24,751,000.00
					<b>230,000,000.00</b>	<b>231,043,750.00</b>	<b>230,117,922.81</b>	<b>229,833,200.00</b>
<b>Certificates of Deposit</b>								
SOCIETE 3.04% 07/05	8336P05T5	3.0400	7/1/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
BARCLAYS BANK 3.05% 07/05	0673P0JA5	3.0500	7/5/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
WELLS FARGO 3.27% 07/05	9497P2UY1	3.2700	7/15/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
FIRST TN BNK 3.08% 07/05	3371F1MY6	3.0800	7/20/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
CITIBANK NA CD 3.1% 07/05	17304TTD5	3.1000	7/25/2005	100.0000	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00
DEUTSCHE BANK 3.11% 07/05	25153CGN9	3.1100	7/29/2005	100.0000	100,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00
DEUTSCHE BANK AG 3% 08/05	25153CDP7	3.0000	8/16/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
CITIBANK NEW 3.205% 08/05	17304TUD3	3.2050	8/22/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
CITIBANK NEW 3.23% 08/05	17304TUH4	3.2300	8/23/2005	100.0000	20,000,000.00	20,000,000.00	20,000,000.00	20,000,000.00
SOCIETE 3.22% 08/05	8336P05N8	3.2200	8/26/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
DEUTSCHE BANK 3.26% 09/05	25153CJT3	3.2600	9/1/2005	100.0000	30,000,000.00	30,000,000.00	30,000,000.00	30,000,000.00
CITIBANK NEW 3.355% 09/05	17304TVJ9	3.3550	9/16/2005	100.0000	30,000,000.00	30,000,000.00	30,000,000.00	30,000,000.00

## VA GENERAL ACCOUNT

*Audited Market Value*

*As of June 30, 2005*

Description	Security	Coupon Rate	Maturity Date	Price (Base)	Shares/Par	Cost (Base)	Amortized Cost	Traded Market Value
BARCLAYS 3.405% 09/05	0673P0NN2	3.4050	9/23/2005	100.0000	35,000,000.00	35,000,000.00	35,000,000.00	35,000,000.00
CITIBANK NEW 3.435% 09/05	17304TVR1	3.4350	9/29/2005	100.0000	50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
BARCLAYS BANK 3.32% 09/05	0673P0LK0	3.3200	9/30/2005	100.0000	30,000,000.00	30,000,000.00	30,000,000.00	30,000,000.00
SUNTRUST BK 3.3% 10/05	86787AMK8	3.3000	10/18/2005	100.0000	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00
DEUTSCHE BANK 3.59% 12/05	25153CKK0	3.5900	12/16/2005	100.0000	35,000,000.00	35,000,000.00	35,000,000.00	35,000,000.00
					<b>730,000,000.00</b>	<b>730,000,000.00</b>	<b>730,000,000.00</b>	<b>730,000,000.00</b>
<b>Commercial Paper</b>								
BEAR STEARNS ZERO 07/05	07389AU50	-	7/5/2005	99.9664	100,000,000.00	99,245,000.00	99,966,444.44	99,966,444.44
NEW CTR ASSET ZERO 07/05	64351PU86	-	7/8/2005	99.9403	30,000,000.00	29,887,433.33	29,982,091.67	29,982,091.67
FCAR OWNER ZERO 07/05	3024A0UF0	-	7/15/2005	99.8787	25,000,000.00	24,893,833.33	24,969,666.67	24,969,666.67
GOLDMAN SACHS ZERO 07/05	38142TUF0	-	7/15/2005	99.8756	100,000,000.00	99,777,777.78	99,875,555.56	99,875,555.56
ING (US) ZERO 07/05	4497W0UF3	-	7/15/2005	99.8759	24,000,000.00	23,946,833.33	23,970,226.66	23,970,226.66
MORTGAGE ZERO 07/05	61911RUF5	-	7/15/2005	99.8759	50,000,000.00	49,875,944.44	49,937,972.22	49,937,972.22
UBS FINANCE ZERO 07/05	90262CUF2	-	7/15/2005	99.8794	50,000,000.00	49,806,250.00	49,939,722.22	49,939,722.22
WINDMILL ZERO 07/05	97342JUF6	-	7/15/2005	99.8798	50,000,000.00	49,781,125.00	49,939,916.67	49,939,916.67
MORGAN STANLEY ZERO 07/05	61745AUJ6	-	7/18/2005	99.8536	50,000,000.00	49,625,416.67	49,926,805.56	49,926,805.56
GENERAL ELEC ZERO 07/05	36959HUV7	-	7/29/2005	99.7581	25,000,000.00	24,801,305.56	24,939,527.78	24,939,527.78
AMERICAN ZERO 08/05	02581RV26	-	8/2/2005	99.7227	100,000,000.00	99,220,000.00	99,722,666.66	99,722,666.66
CITIGROUP GBL ZERO 08/05	17307JV33	-	8/3/2005	99.7140	50,000,000.00	49,605,666.67	49,857,000.00	49,857,000.00
MORGAN STANLEY ZERO 08/05	61745AVG1	-	8/16/2005	99.5911	100,000,000.00	99,244,444.44	99,591,111.10	99,591,111.10
ING (US) ZERO 09/05	4497W0WG9	-	9/16/2005	99.2749	100,000,000.00	99,256,083.33	99,274,916.67	99,274,916.67
BARCLAYS U S ZERO 10/05	06737HXX2	-	10/31/2005	98.8207	75,000,000.00	74,108,250.00	74,115,500.00	74,115,500.00
					<b>929,000,000.00</b>	<b>923,075,363.88</b>	<b>926,009,123.88</b>	<b>926,009,123.88</b>
<b>Money Market</b>								
JP MORGAN U S GOVT MMF AG	928995AJ8	3.0028		100.0000	5,087,974.99	5,087,974.99	5,087,974.99	5,087,974.99
					<b>5,087,974.99</b>	<b>5,087,974.99</b>	<b>5,087,974.99</b>	<b>5,087,974.99</b>
<b>Repurchase Agreement</b>								
TRI-PARTY 3.12% 07/05	381996610	3.1200	7/1/2005	100.0000	100,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00
TRI-PARTY 3.43% 07/05	381996859	3.4300	7/1/2005	100.0000	485,000,000.00	485,000,000.00	485,000,000.00	485,000,000.00
					<b>585,000,000.00</b>	<b>585,000,000.00</b>	<b>585,000,000.00</b>	<b>585,000,000.00</b>
<b>T-Note</b>								
USA TREASURY 1.625% 10/05	912828BN9	1.6250	10/31/2005	99.4610	10,000,000.00	9,956,250.00	9,992,431.58	9,946,100.00
					<b>10,000,000.00</b>	<b>9,956,250.00</b>	<b>9,992,431.58</b>	<b>9,946,100.00</b>
<b>T-Bond</b>								
USA TREASURY 1.875% 12/05	912828BU3	1.8750	12/31/2005	99.2460	10,000,000.00	10,010,937.50	10,002,868.89	9,924,600.00
					<b>10,000,000.00</b>	<b>10,010,937.50</b>	<b>10,002,868.89</b>	<b>9,924,600.00</b>
<b>Totals</b>					<b>\$4,388,653,974.99</b>	<b>\$4,374,404,166.10</b>	<b>\$4,379,632,458.61</b>	<b>\$4,372,182,594.90</b>

**TREASURY OF VA/LOTTERY**  
**Audited Market Value - Monthly**  
As of Jun 30, 2005

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Description	Security	Coupon Rate	Maturity Date	Price (Base)	Shares/Par	Cost (Base)	Amortized Cost	Traded Market Value
<b>Corporate Bond</b>								
U S TREAS NT ZERO 05/06	912820HV2	-	5/15/2006	96.9690	52,000.00	50,375.52	50,375.52	50,423.88
					<b>52,000.00</b>	<b>50,375.52</b>	<b>50,375.52</b>	<b>50,423.88</b>
<b>T-Note</b>								
UNITED IO ZERO 11/05	912820BQ9	-	11/15/2005	98.7830	570,000.00	505,773.28	505,773.28	563,063.10
UNITED IO ZERO 05/08	912820CY1	-	5/15/2008	90.0310	52,000.00	46,632.04	46,632.04	46,816.12
UNITED STATES ZERO 11/06	912820GQ4	-	11/15/2006	95.2090	466,000.00	382,068.74	382,068.74	443,673.94
U S TREAS NT ZERO 05/07	912820KD8	-	5/15/2007	93.4180	52,000.00	48,478.04	48,478.04	48,577.36
US TREAS NT	912820KE6	-	5/15/2009	86.6890	52,000.00	44,813.60	44,813.60	45,078.28
					<b>1,192,000.00</b>	<b>1,027,765.70</b>	<b>1,027,765.70</b>	<b>1,147,208.80</b>
<b>T-Bond</b>								
UNITED IO ZERO 08/05	912803AG8	-	8/15/2005	99.6170	1,307,000.00	888,144.12	888,144.12	1,301,994.19
UNITED IO ZERO 02/06	912803AJ2	-	2/15/2006	97.9240	343,000.00	332,895.22	332,895.22	335,879.32
UNITED IO ZERO 08/20	912803AU7	-	8/15/2020	52.2420	153,000.00	52,788.70	52,788.70	79,930.26
UNITED IO ZERO 08/21	912803AX1	-	8/15/2021	49.8890	499,000.00	152,163.68	152,163.68	248,946.11
UNITED STATES ZERO 11/21	912803AY9	-	11/15/2021	49.2750	466,000.00	144,930.66	144,930.66	229,621.50
UNITED IO ZERO 08/22	912803AZ6	-	8/15/2022	47.5430	153,000.00	46,938.52	46,938.52	72,740.79
UNITED IO ZERO 11/22	912803BA0	-	11/15/2022	46.9500	466,000.00	136,696.44	136,696.44	218,787.00
UNITED IO ZERO 08/23	912803BC6	-	8/15/2023	45.4420	153,000.00	44,443.16	44,443.16	69,526.26
USA IO ZERO 11/24	912803BD4	-	11/15/2024	43.0360	466,000.00	121,490.86	121,490.86	200,547.76
UNITED IO ZERO 08/25	912803BF9	-	8/15/2025	41.6540	346,000.00	81,739.04	81,739.04	144,122.84
UNITED STATES ZERO 08/26	912803BH5	-	8/15/2026	39.9620	346,000.00	77,462.48	77,462.48	138,268.52
UNITED IO ZERO 11/28	912803BV4	-	11/15/2028	36.6590	4,120,000.00	876,118.00	876,118.00	1,510,350.80
UNITED IO ZERO 02/29	912803BW2	-	2/15/2029	36.3520	343,000.00	115,179.40	115,179.40	124,687.36
UNITED IO ZERO 08/29	912803CG6	-	8/15/2029	35.4970	459,000.00	95,588.55	95,588.55	162,931.23
UNITED STATES ZERO 02/31	912803CK7	-	2/15/2031	33.5350	1,085,000.00	332,661.00	332,661.00	363,854.75
U S TREAS IO ZERO 08/07	912820CA3	-	8/15/2007	92.5530	153,000.00	123,426.06	123,426.06	141,606.09
U S TREAS IO ZERO 11/05	912820FX0	-	11/15/2005	98.7830	52,000.00	50,796.20	50,796.20	51,367.16
UNITED IO ZERO 11/07	912820HK6	-	11/15/2007	91.7560	156,000.00	141,281.40	141,281.40	143,139.36
U S TREAS PO ZERO 11/06	912820JL2	-	11/15/2006	95.2070	52,000.00	49,207.08	49,207.08	49,507.63
UNITED PO ZERO 11/08	912820JM0	-	11/15/2008	88.4509	52,000.00	45,534.84	45,534.84	45,994.47
UNITED PO ZERO 11/09	912820KY2	-	11/15/2009	85.2074	52,000.00	43,566.12	43,566.12	44,307.85
U S TREAS NT 3.875% 05/10	912820LR6	3.8750	5/15/2010	83.2610	52,000.00	42,805.90	42,805.90	43,295.72
UNITED IO ZERO 08/05	912833CN8	-	8/15/2005	99.6170	15,584,000.00	6,745,137.01	6,745,137.01	15,524,313.28
UNITED IO ZERO 02/06	912833CP3	-	2/15/2006	97.9780	14,025,000.00	5,794,277.33	5,794,277.33	13,741,414.50
UNITED IO ZERO 08/06	912833CQ1	-	8/15/2006	96.1920	16,891,000.00	7,080,759.56	7,080,759.56	16,247,790.72
UNITED IO ZERO 02/07	912833CR9	-	2/15/2007	94.3760	14,367,000.00	5,688,851.76	5,688,851.76	13,558,999.92
UNITED IO ZERO 08/07	912833CS7	-	8/15/2007	92.6690	16,738,000.00	6,439,560.76	6,439,560.76	15,510,937.22
UNITED IO ZERO 02/08	912833CT5	-	2/15/2008	91.0450	14,360,000.00	5,279,916.71	5,279,916.71	13,074,062.00
UNITED IO ZERO 08/08	912833CU2	-	8/15/2008	89.3480	16,762,000.00	6,076,170.15	6,076,170.15	14,976,511.76
UNITED IO ZERO 02/09	912833CV0	-	2/15/2009	87.6260	14,345,000.00	4,899,249.92	4,899,249.92	12,569,949.70
UNITED IO ZERO 08/09	912833CW8	-	8/15/2009	86.0080	16,891,000.00	5,629,387.51	5,629,387.51	14,527,611.28
UNITED IO ZERO 02/10	912833CX6	-	2/15/2010	84.4120	13,678,000.00	4,431,348.60	4,431,348.60	11,545,873.36
UNITED IO ZERO 08/10	912833CY4	-	8/15/2010	83.2550	14,408,000.00	4,792,855.75	4,792,855.75	11,995,380.40
UNITED IO ZERO 02/11	912833CZ1	-	2/15/2011	81.0600	10,555,000.00	3,508,378.33	3,508,378.33	8,555,883.00
UNITED IO ZERO 08/11	912833DA5	-	8/15/2011	79.3210	11,534,000.00	3,905,634.90	3,905,634.90	9,148,884.14

**TREASURY OF VA/LOTTERY**  
**Audited Market Value - Monthly**  
As of Jun 30, 2005

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Description	Security	Coupon Rate	Maturity Date	Price (Base)	Shares/Par	Cost (Base)	Amortized Cost	Traded Market Value
UNITED IO ZERO 02/12	912833DB3	-	2/15/2012	77.6330	7,354,000.00	2,662,241.09	2,662,241.09	5,709,130.82
UNITED IO ZERO 08/12	912833DC1	-	8/15/2012	76.0030	10,129,000.00	3,339,692.34	3,339,692.34	7,698,343.87
UNITED IO ZERO 02/13	912833DD9	-	2/15/2013	74.2190	6,189,000.00	2,215,850.20	2,215,850.20	4,593,413.91
UNITED IO ZERO 08/13	912833DE7	-	8/15/2013	72.4930	7,686,000.00	2,470,945.34	2,470,945.34	5,571,811.98
UNITED IO ZERO 02/14	912833DF4	-	2/15/2014	70.7720	4,798,000.00	1,721,398.76	1,721,398.76	3,395,640.56
UNITED STATES ZERO 08/14	912833DG2	-	8/15/2014	69.2430	6,464,000.00	2,041,821.92	2,041,821.92	4,475,867.52
UNITED IO ZERO 02/15	912833DH0	-	2/15/2015	67.6700	3,286,000.00	1,299,659.99	1,299,659.99	2,223,636.20
UNITED IO ZERO 11/05	912833FX3	-	11/15/2005	98.7900	13,774,000.00	5,923,439.41	5,923,439.41	13,607,334.60
UNITED IO ZERO 05/06	912833FY1	-	5/15/2006	97.0850	14,320,000.00	5,650,294.86	5,650,294.86	13,902,572.00
UNITED IO ZERO 11/06	912833FZ8	-	11/15/2006	95.2350	13,878,000.00	5,575,372.07	5,575,372.07	13,216,713.30
UNITED IO ZERO 05/07	912833GA2	-	5/15/2007	93.5210	14,320,000.00	5,220,745.91	5,220,745.91	13,392,207.20
UNITED IO ZERO 11/07	912833GB0	-	11/15/2007	91.8410	14,240,000.00	5,440,085.39	5,440,085.39	13,078,158.40
UNITED IO ZERO 05/08	912833GC8	-	5/15/2008	90.1320	14,449,000.00	4,825,887.30	4,825,887.30	13,023,172.68
UNITED IO ZERO 11/08	912833GD6	-	11/15/2008	88.4290	14,344,000.00	5,124,327.25	5,124,327.25	12,684,255.76
UNITED IO ZERO 05/09	912833GE4	-	5/15/2009	86.8310	14,320,000.00	4,458,261.76	4,458,261.76	12,434,199.20
UNITED IO ZERO 11/09	912833GF1	-	11/15/2009	85.2620	14,144,000.00	4,710,384.79	4,710,384.79	12,059,457.28
UNITED IO ZERO 08/15	912833JT8	-	8/15/2015	66.1800	4,818,000.00	1,487,682.62	1,487,682.62	3,188,552.40
UNITED IO ZERO 05/10	912833JU5	-	5/15/2010	83.8420	13,028,000.00	3,893,631.96	3,893,631.96	10,922,935.76
UNITED ZERO 11/10	912833JV3	-	11/15/2010	82.5570	12,138,000.00	4,044,054.04	4,044,054.04	10,020,768.66
UNITED ZERO 05/11	912833JW1	-	5/15/2011	80.2600	10,375,000.00	3,144,052.41	3,144,052.41	8,326,975.00
UNITED IO ZERO 11/11	912833JX9	-	11/15/2011	78.5250	9,982,000.00	3,328,659.01	3,328,659.01	7,838,365.50
UNITED IO ZERO 05/12	912833JY7	-	5/15/2012	76.8420	7,945,000.00	2,432,345.07	2,432,345.07	6,105,096.90
UNITED IO ZERO 11/12	912833JZ4	-	11/15/2012	75.1660	7,788,000.00	2,646,075.13	2,646,075.13	5,853,928.08
UNITED IO ZERO 05/13	912833KA7	-	5/15/2013	73.3840	6,262,000.00	1,865,354.40	1,865,354.40	4,595,306.08
UNITED IO ZERO 11/13	912833KB5	-	11/15/2013	71.7200	5,900,000.00	1,973,816.95	1,973,816.95	4,231,480.00
UNITED STATES ZERO 05/14	912833KC3	-	5/15/2014	70.0050	4,373,000.00	1,329,026.82	1,329,026.82	3,061,318.65
UNITED STATES ZERO 11/14	912833KD1	-	11/15/2014	68.4860	4,787,000.00	1,626,884.56	1,626,884.56	3,278,424.82
UNITED STATES ZERO 05/15	912833KE9	-	5/15/2015	66.9870	2,662,000.00	826,330.46	826,330.46	1,783,193.94
USA TREASURY ZERO 11/15	912833KF6	-	11/15/2015	65.5080	2,823,000.00	981,142.58	981,142.58	1,849,290.84
UNITED IO ZERO 02/16	912833KG4	-	2/15/2016	64.7090	2,531,000.00	1,008,162.33	1,008,162.33	1,637,784.79
UNITED STATES ZERO 05/16	912833KH2	-	5/15/2016	63.9810	1,646,000.00	527,863.75	527,863.75	1,053,127.26
UNITED IO ZERO 08/16	912833KJ8	-	8/15/2016	63.1900	2,754,000.00	897,719.07	897,719.07	1,740,252.60
USA IO ZERO 11/16	912833KK5	-	11/15/2016	62.4020	1,878,000.00	672,331.93	672,331.93	1,171,909.56
UNITED IO ZERO 02/17	912833KL3	-	2/15/2017	61.6880	1,905,000.00	791,344.42	791,344.42	1,175,156.40
UNITED IO ZERO 05/17	912833KM1	-	5/15/2017	60.9800	335,000.00	173,590.30	173,590.30	204,283.00
UNITED IO ZERO 08/17	912833KN9	-	8/15/2017	60.2040	1,071,000.00	400,140.34	400,140.34	644,784.84
UNITED IO ZERO 11/17	912833KP4	-	11/15/2017	59.4340	1,098,000.00	402,413.94	402,413.94	652,585.32
UNITED IO ZERO 02/18	912833KQ2	-	2/15/2018	58.7390	1,897,000.00	743,662.99	743,662.99	1,114,278.83
UNITED IO ZERO 05/18	912833KR0	-	5/15/2018	57.9770	320,000.00	153,075.20	153,075.20	185,526.40
UNITED IO ZERO 08/18	912833KS8	-	8/15/2018	57.2930	821,000.00	296,537.94	296,537.94	470,375.53
UNITED IO ZERO 11/18	912833KT6	-	11/15/2018	56.6140	1,098,000.00	377,960.62	377,960.62	621,621.72
UNITED IO ZERO 02/19	912833KU3	-	2/15/2019	55.9410	1,857,000.00	688,985.13	688,985.13	1,038,824.37
UNITED IO ZERO 05/19	912833KV1	-	5/15/2019	55.2720	320,000.00	145,430.40	145,430.40	176,870.40
UNITED IO ZERO 08/19	912833KW9	-	8/15/2019	54.6090	821,000.00	278,655.77	278,655.77	448,339.89
UNITED IO ZERO 11/19	912833KX7	-	11/15/2019	53.9520	1,098,000.00	355,193.54	355,193.54	592,392.96
UNITED IO ZERO 02/20	912833KY5	-	2/15/2020	53.2990	1,844,000.00	648,094.76	648,094.76	982,833.56

**TREASURY OF VA/LOTTERY**  
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Description	Security	Coupon Rate	Maturity Date	Price (Base)	Shares/Par	Cost (Base)	Amortized Cost	Traded Market Value	
USA TREASUR ZERO 05/20	912833KZ2	-	5/15/2020	52.6520	320,000.00	136,633.60	136,633.60	168,486.40	
UNITED IO ZERO 08/20	912833LA6	-	8/15/2020	52.0870	668,000.00	209,349.77	209,349.77	347,941.16	
UNITED IO ZERO 11/20	912833LB4	-	11/15/2020	51.5290	1,098,000.00	334,259.96	334,259.96	565,788.42	
UNITED IO ZERO 02/21	912833LC2	-	2/15/2021	50.9760	1,820,000.00	604,594.39	604,594.39	927,763.20	
UNITED IO ZERO 05/21	912833LD0	-	5/15/2021	50.3510	268,000.00	107,451.92	107,451.92	134,940.68	
UNITED IO ZERO 08/21	912833LE8	-	8/15/2021	49.7320	322,000.00	94,675.37	94,675.37	160,137.04	
UNITED IO ZERO 11/21	912833LF5	-	11/15/2021	49.1170	632,000.00	170,439.52	170,439.52	310,419.44	
UNITED IO ZERO 02/22	912833LG3	-	2/15/2022	48.5870	1,787,000.00	562,749.34	562,749.34	868,249.69	
UNITED IO ZERO 05/22	912833LH1	-	5/15/2022	47.9830	268,000.00	100,644.72	100,644.72	128,594.44	
UNITED IO ZERO 08/22	912833LJ7	-	8/15/2022	47.6230	668,000.00	186,237.92	186,237.92	318,121.66	
UNITED IO ZERO 11/22	912833LK4	-	11/15/2022	46.8700	156,000.00	63,124.36	63,124.36	73,117.20	
UNITED IO ZERO 02/23	912833LL2	-	2/15/2023	46.3620	1,770,000.00	528,787.33	528,787.33	820,607.40	
UNITED IO ZERO 08/23	912833LM0	-	8/15/2023	45.2810	668,000.00	176,055.98	176,055.98	302,477.08	
UNITED IO ZERO 05/23	912833LN8	-	5/15/2023	45.7790	268,000.00	95,247.20	95,247.20	122,687.72	
UNITED IO ZERO 11/23	912833LP3	-	11/15/2023	44.7890	622,000.00	189,152.24	189,152.24	278,587.58	
UNITED IO ZERO 02/24	912833LQ1	-	2/15/2024	44.3020	1,685,000.00	481,308.69	481,308.69	746,488.70	
UNITED IO ZERO 05/24	912833LR9	-	5/15/2024	43.7400	268,000.00	89,959.56	89,959.56	117,223.20	
UNITED IO ZERO 08/24	912833LS7	-	8/15/2024	43.2630	677,000.00	177,951.21	177,951.21	292,890.51	
UNITED IO ZERO 11/24	912833LT5	-	11/15/2024	42.7920	156,000.00	56,929.08	56,929.08	66,755.52	
UNITED IO ZERO 02/25	912833LU2	-	2/15/2025	42.3260	1,198,000.00	354,504.04	354,504.04	507,065.48	
UNITED IO ZERO 05/25	912833LV0	-	5/15/2025	41.9460	268,000.00	84,934.56	84,934.56	112,415.28	
UNITED IO ZERO 08/25	912833LW8	-	8/15/2025	41.4900	205,000.00	56,829.12	56,829.12	85,054.50	
U S TREAS IO ZERO 11/25	912833LX6	-	11/15/2025	41.0390	597,000.00	163,246.96	163,246.96	245,002.83	
USA IO ZERO 02/26	912833LY4	-	2/15/2026	40.5930	1,190,000.00	335,878.81	335,878.81	483,056.70	
UNITED IO ZERO 05/26	912833LZ1	-	5/15/2026	40.2340	268,000.00	80,440.20	80,440.20	107,827.12	
UNITED IO ZERO 08/26	912833PA2	-	8/15/2026	39.7150	205,000.00	53,642.89	53,642.89	81,415.75	
UNITED IO ZERO 11/26	912833PB0	-	11/15/2026	39.3660	597,000.00	154,612.56	154,612.56	235,015.02	
U S TREAS IO ZERO 02/27	912833PC8	-	2/15/2027	39.1040	2,631,000.00	648,860.23	648,860.23	1,028,826.24	
UNITED IO ZERO 05/27	912833PD6	-	5/15/2027	38.6410	268,000.00	76,460.40	76,460.40	103,557.88	
UNITED IO ZERO 08/27	912833PE4	-	8/15/2027	38.1810	205,000.00	50,840.00	50,840.00	78,271.05	
UNITED IO ZERO 11/27	912833QB9	-	11/15/2027	37.8510	597,000.00	146,837.16	146,837.16	225,970.47	
UNITED IO ZERO 02/28	912833RY8	-	2/15/2028	37.5250	395,000.00	131,604.43	131,604.43	148,223.75	
UNITED IO ZERO 08/28	912833RZ5	-	8/15/2028	36.8040	205,000.00	48,290.04	48,290.04	75,448.20	
U S TREAS IO ZERO 05/28	912833WQ9	-	5/15/2028	37.1620	216,000.00	58,337.28	58,337.28	80,269.92	
UNITED IO ZERO 11/28	912833WR7	-	11/15/2028	36.4080	218,000.00	62,907.11	62,907.11	79,369.44	
UNITED IO ZERO 02/29	912833XN5	-	2/15/2029	36.0170	447,000.00	139,477.91	139,477.91	160,995.99	
U S TREAS IO ZERO 08/29	912833XP0	-	8/15/2029	35.4140	156,000.00	43,118.40	43,118.40	55,245.84	
U S TREAS IO ZERO 05/29	912833XS4	-	5/15/2029	35.5470	216,000.00	56,116.80	56,116.80	76,781.52	
U S TREAS IO ZERO 11/29	912833XT2	-	11/15/2029	35.0630	1,101,000.00	316,292.13	316,292.13	386,043.63	
UNITED IO ZERO 05/30	912833XU9	-	5/15/2030	34.3730	2,158,000.00	533,047.58	533,047.58	741,769.34	
UNITED IO ZERO 02/31	912833XZ8	-	2/15/2031	33.2830	1,240,000.00	224,856.44	224,856.44	412,709.20	
						<b>519,984,000.00</b>	<b>183,274,699.75</b>	<b>183,274,699.75</b>	<b>424,993,129.76</b>
<b>Totals</b>						<b>\$521,228,000.00</b>	<b>\$184,352,840.97</b>	<b>\$184,352,840.97</b>	<b>\$426,190,762.44</b>

**CHASE GLOBAL SECURITIES LENDING  
INVESTMENT GUIDELINES  
VIRGINIA DEPARTMENT OF THE TREASURY**

**A. FUND OBJECTIVE**

This short term, fixed income fund (the "Fund") is designed to maximize the yield on securities lending cash collateral by investing in securities that satisfy these guidelines, as applied at the time of purchase.

**B. PERMISSIBLE INVESTMENTS**

**1. Instruments**

The Fund is permitted to purchase both fixed-income securities and other securities with debt-like characteristics on a fixed rate and floating rate basis, including:

- Asset Backed Securities
- Bank Notes
- Bankers' Acceptances
- Certificates of Deposit (Domestic and Yankee only)
- Commercial Paper, including unregistered (so-called 4(2)) Commercial Paper
- Corporate Bonds
- Corporate Notes
- Deposit Notes
- Master Notes (Maximum 30 day Put)
- Medium Term Notes
- Promissory Notes
- Repurchase Agreements, subject to the requirements of paragraph G
- U.S. Government Securities, which shall include securities issued or guaranteed as to principal and interest by the United States Government, its agencies instrumentalities or establishments

**2. Certain Derivatives**

The Fund will not invest in any instrument whose coupon rate will move in the opposite direction of the index to which such instrument is tied. In addition, in the event that the Fund invests in any instrument whose coupon rate moves when the index to which such rate is tied moves, the Fund shall invest only in those of such instruments whose movements in the coupon rate are equivalent to movements in the index.

### 3. Currency

Only U.S. Dollar denominated securities will be permissible under these guidelines.

### 4. Limitation on Foreign Issuers

All corporate issuers must be incorporated in the United States. The only exception will be debt obligations issued by sovereign governments and their instrumentalities, with a credit rating of Aaa by Moody's and AAA by S&P.

Bank obligations are subject to the following country restrictions:

<u>Country</u>	<u>Maximum Exposure</u>
United States	100%
France	50%
Great Britain	50%
Germany	50%
Japan	50%
Switzerland	50%

Chase intends to apply these country limitations to the country of issuer or counterparty (including home office for obligations of bank branches), except that the country of the guarantor will be used for investments that are guaranteed.

### C. PROHIBITED INVESTMENTS

1. Equity securities (except that equity securities, such as owner trust certificates, that have predominant debt characteristics shall not be prohibited)
2. Floating rate securities with an interest rate cap, with the exception of those capped at a rate in excess of 20% to comply with state usury laws

### D. LIMITATIONS ON AMOUNTS INVESTED/CASH RESERVE; PERMITTED BORROWING

1. The Fund will seek to be fully invested in permissible securities as of the close of business on each day.
2. On a temporary basis not to exceed seven days, solely for the purpose of liquidity, the Fund may enter into reverse repurchase agreements with respect to U.S. Government Securities. While any such borrowing is outstanding, the Fund will not make additional investments.

**E. CONCENTRATION GUIDELINES**

The greater of 25 million or 5% of the Fund's total assets, measured at the time of purchase, may be invested in the securities of a single issuer (other than U.S. Government Securities and repurchase agreements as to which there is no limitation).

**F. MATURITY GUIDELINES**

1. Fixed rate instruments must have a Final Maturity at the time of purchase that does not exceed 2 years.
2. Floating rate instruments which are U.S. Government Securities must have a Final Maturity that does not exceed 5 years and all other floating rate instruments must have a Final Maturity that does not exceed 2 years.
3. Final Maturity for purposes of these guidelines means the earliest of (i) the date noted on the face of the instrument as the date on which the principal amount must be paid, (ii) in the case of an instrument with an unconditional put or unconditional demand feature, the date on which the principal amount of the instrument can be recovered by demand, or (iii) in the case of a floating rate instrument, the next readjustment of the interest rate, provided that, if the maturity of a floating rate instrument is determined by reference to an unconditional put or unconditional demand feature, the period remaining between adjustments of the interest rate must not exceed the period specified in paragraph F.1. A floating rate instrument shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate, for purposes of calculating days to maturity of the instrument and the portfolio's weighted average maturity.
4. A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.
5. Adjustable rate mortgages will have a maturity equal to the period remaining until the last principal payment is required by the terms of the underlying obligation to be paid.

6. The Fund's maximum weighted average days to maturity may not exceed 120.

**G. REPURCHASE AGREEMENTS** (including term repurchase agreements, entered into using custodians deemed appropriate by the Lender's Agent)

**1. Permitted Collateral**

Bills, bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities or establishments; mortgage-backed securities sponsored by agencies of the Government of the United States; corporate obligations of domestic and foreign issuers with a minimum rating of AA- by Standard & Poor's Corporation ("S&P") and Aa3 by Moody's Investor Services, Inc. ("Moody's"); asset-backed securities with a minimum rating of AAA by S&P and Aaa by Moody's; or money market instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's).

**2. Diversification**

A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the Fund is fully collateralized.

**H. QUALITY GUIDELINES**

**1. Ratings**

Except as otherwise provided with respect to repurchase agreement collateral in paragraph G:

Specified rating categories at initial time of purchase:

- a. Short-Term – Corporate issuers: Any two of the following: A-1 by S&P, P-1 by Moody's, F-1 by Fitch, D-1 by Duff.
- b. Short Term – Bank Issuers: A-1 by Moody's and P-1 by S&P
- c. Long-Term: At least A-by S&P and A-3 by Moody's.

A security without its own rating will be considered to be rated if it has been issued by an issuer that is rated with respect to (i) a class of short-term debt

obligations, in the case of short-term ratings or (ii) a class of long-term debt obligations, in the case of long-term ratings, or any security within the relevant class that is comparable in priority and security with the purchased security. Long-term ratings will be used only if a security is not rated and no security of the same issuer that is comparable in priority with such security is rated.

## 2. Downgrades

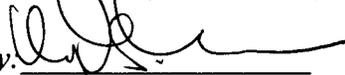
The Fund may not purchase securities based on either an S&P, Moody's, Fitch, or Duff rating where the rating organization has announced publicly that it is examining the rating for a possible downgrade. This limitation does not apply to securities rated A1+ by S&P.

In the event that a security held in the portfolio falls below the minimum guideline as detailed in this paragraph H as a result of being downgraded by either S&P Moody's, Fitch, or Duff, Chase will notify the client and await instructions. In no event, however, will Chase be liable for any consequences of the fallen rating, including retention of the security in the absence of instructions from the client.

\* \* \*

*Each client should analyze these guidelines continually to determine their continued appropriateness, recognizing that all investments bear risks and that the return of principal is not assured.*

*The Commonwealth of Virginia  
Department of the Treasury*

By: 

Name: Mary G. Morris

Title: State Treasurer

Date: 12/12/00