

Notice of Issuance of a Request for Proposal (RFP) For a Short-Duration High Yield Bond Manager

The Pennsylvania Turnpike Commission (“Commission”) has established a Retiree Medical Trust (“Trust”) to fund post-retirement medical benefits. The Trustees of the Trust are issuing a public Request for Proposal (RFP) for the purpose of identifying, evaluating and retaining a qualified investment management firm to manage \$10 million in a Short-Duration High Yield Bond mandate.

The mandate will provide reasonable flexibility in its objectives and constraints, but the desired portfolio characteristics would include:

1. An actively managed portfolio in terms of overall quality, duration management, and individual security selection;
2. The target duration of the portfolio should be two years or less but may range from less than one-year to a maximum of three-years;
3. The portfolio may include non-US, developed and emerging markets, sovereign and corporate securities, but is not required to;
4. The portfolio should focus on higher quality high yield securities, such as on BB and B rated securities. Lower rated securities such as C/CC rated and unrated bonds would be permitted but would be limited to 15% of the portfolio;
5. Active currency hedging is permitted for non-US dollar denominated holdings;
6. The use of interest rate derivatives (futures, options, swaps, CDS) would be permitted to create desired exposures and duration, but not for the purpose of creating leverage;
7. A wide range of structured and securitized securities would be permitted;
8. Securities should be publicly-traded and have reasonable liquidity;
9. The mandate is expected to be benchmarked to the BofA/ML High Yield Cash Pay 1-3 year BB Index.

The minimum criteria for investment management firms to be considered well-qualified for this mandate would include:

1. The firm should be domiciled in the United States and must be registered as an Investment Advisor with the SEC, regulated by an appropriate State Insurance Commission, or by the Office of the Comptroller of the Currency;
2. The firm must have no material regulatory infractions for the past 10 years;
3. The firm should carry a minimum of \$20 million in E&O liability insurance;
4. The firm should manage a minimum of \$500 million in total fixed income assets and manage a minimum of \$100 million in high yield bond mandates as of 3/31/2013;
5. The firm should have been managing high yield bond portfolios for a minimum of 5 years and the firm’s designated portfolio manager or team should have a minimum of 5 years of experience managing high yield bonds.

Firms interested in responding to the RFP are directed to visit the Commission’s website at www.paturndpike.com or contact the Trust’s Investment Consultant listed below to obtain a copy of the RFP.

Do NOT contact the Commission or Trustees. Direct contact with the Commission Staff, Commissioners or Plan Trustees will result in disqualification. All questions and the RFP responses should be directed to the Trust's Investment Consultant:

David A. Russell, CFA
Investment Performance Services, LLC
642 Newtown Yardley Road, Newtown, PA 18940
Phone: (215) 867-2330 Email: drussell@ips-net.com

The RFP shall be posted on the Commission's website and available from Investment Performance Services, LLC on or about **June 7, 2013**. The deadline for submitting a response to the RFP to Investment Performance Services is **Friday, July 5, 2013 by 4:00 PM**.

Proposals are to be submitted electronically via email in PDF format to the Trust's Investment Consultant, listed above. The reference line of the email and attached PDF file name should be structured: "[YourFirmName] – Pa Turnpike RFP Response"

Potential vendors shall assume all responsibility for submitting the required information in an accurate, complete, and timely manner. The Trustees reserve the right to reject any and all vendor proposals for any reason, alter the mandate and modify the portfolio constraints and characteristics listed above, alter or amend the RFP and extend deadlines for submission.

The Trust currently intends that a single contract will be awarded for the contemplated mandate. The Trust reserves the right to reject any and all proposals or to negotiate separately with competing proposers. The Trust is not liable for any cost incurred by the firms in their preparation and submission of proposals, in participating in the RFP process or in the award of any contract.

All RFP responses will be reviewed by the Trust's Investment Consultant and leading candidates responses will be evaluated by the Trustees. The following criteria, in relative order of importance, will be used in evaluating each proposal:

- 1) Suitability of investment product and process;
- 2) Product performance and consistency;
- 3) Qualifications and experience of investment professionals;
- 4) Firm experience, staffing adequacy, stability and regulatory compliance;
- 5) Adequacy of risk controls and monitoring;
- 6) Fees;
- 7) Presence in and commitment to the Commonwealth of Pennsylvania; and
- 8) Overall responsiveness and clarity of RFP response.

The Trustees, Investment Consultant and staff reserve the right to conduct additional due diligence, engage in discussions with, or require additional information or documentation from any potential vendor. Potential vendors may also be required to make an oral or written presentation of their qualifications and their proposal to the Trust's Investment Consultant, Trustees and Commission staff.

Proposals will be held in confidence and will not be revealed or discussed with any competitor, unless disclosure is required to be made (1) under the provisions of any Commonwealth or United States statute or regulation; or (2) by rule or order of any court of competent jurisdiction.

In accordance with the Pennsylvania Right-to-Know Law (RTKL), proposers shall identify any and all portions of the Proposal that contains confidential proprietary information or is protected by a trade secret. For more information on the RTKL, visit the Office of Open Records' website at www.openrecords.state.pa.us

REQUEST-FOR-PROPOSAL

Short Duration High Yield Investment Performance Services, LLC

This RFP has been created in MS-Word format for ease of response.

All questions and all blanks must be fully completed (insert additional rows where needed or required)

If you have any questions, please contact David A. Russell, CFA. Please submit this completed form along with all required attachments via Email to: David A. Russell, CFA – Email: drussell@ips-net.com Phone: (215) 867-2330

Firm Name:

Date Submitted:

Submitted By:

Email Address: _____ ***Telephone:*** _____

I. Firm Information

1. Assets as of 3/31/13 (millions)

| | | |
|----------------------------------------|----|-------|
| Total Firm Assets under Management | \$ | _____ |
| Equity Assets | \$ | _____ |
| Other Strategies | \$ | _____ |
| Fixed Income Assets | \$ | _____ |
| Cash Management | \$ | _____ |
| Core and Core+ Assets | \$ | _____ |
| High Yield Assets | \$ | _____ |
| Other Fixed Income (Identify strategy) | \$ | _____ |

2. Total Firm Assets by Client Type (millions)

| | | | | | |
|--------------------------|----|-------|------------------------|----|-------|
| Pension/ERISA | \$ | _____ | Insurance Companies | \$ | _____ |
| Public Employees Benefit | \$ | _____ | Other Institutions | \$ | _____ |
| Nonprofit/Endowment | \$ | _____ | Taxable Clients/Trusts | \$ | _____ |

3. Please describe the legal structure and ownership of the firm in detail.

If your firm is a wholly owned subsidiary, provide the name of the parent company and list all affiliates of the parent.

Is the firm a qualified Minority/Woman/Veteran Owned Business Enterprise?

4. Is your firm, its parent, or any affiliate a Broker/Dealer? Does your firm trade for client accounts through this Broker/Dealer?

5. Please explain the history and origin of your firm. Include when the firm was founded, the ownership (List all owners and percentage of ownership), any subsequent changes in ownership (including names, dates and percentages) and any other corporate ties and/or affiliations.

6. Please provide an organizational chart that includes the names of all key management staff, investment team members (portfolio managers and analysts) and operations staff. Specifically identify your designated compliance officer, chief risk officer and internal legal counsel.

7. Please provide the date the firm was first registered with the SEC. Please provide a copy of your current ADV parts I and II.
8. Over the past ten years, has your organization or any officer or principal been involved in any business litigation or regulatory enforcement action related to your investment activities? If so, provide a brief explanation and indicate the current status.
9. Does your firm currently have \$20 million in Errors and Omissions Insurance and/or Fiduciary Liability Insurance? Please provide the declaration pages from the insurance contract showing the policy number, limits and expiration date.

II. Portfolio Construction and Investment Team

1. Please provide the name of your fixed income product. Please provide the number of investors and AUM for this product for each of the past five years.
2. Do your five largest accounts represent more than 25% of the product's assets? If yes, please provide the names and percentage of assets those accounts represent.
3. Does a \$10 million investment qualify for a separate account? If not, is a commingled fund available? What is the legal structure? What are the total assets in the commingled product? What is the minimum investment for the commingled product? What are the liquidity requirements? Please provide a detailed description of the vehicle, identify all relevant parties (Sponsor, Trustees, Custodian, Investment Advisor, Sub-Advisors, etc.) and provide copies of all governing and subscription documents.
4. Please describe your High Yield investment philosophy and investment process.
5. Please describe your product and portfolio construction process in detail. How are decisions made regarding duration, yield curve positioning, credit rating allocations, sector exposures, individual security selection and hedging positions?
6. How do you evaluate individual securities? Specifically discuss your evaluation and analysis of MBS, structured products and other complex securities.
7. What analytical systems do you use? Are they third-party systems or are they proprietary? Please provide sample analytics.
8. Please provide detailed information regarding the product characteristics, including but not limited to:
 - a. Product objective and benchmark
 - b. Portfolio guidelines
 - c. Number of issues and the nature, type and structure of securities utilized
 - d. Duration target and ranges
 - e. Credit quality target and limits
 - f. Geographic limitations and currency hedging strategy
 - g. Liquidity constraints
 - h. Use of derivatives (interest rate futures, options, swaps, etc.)
 - i. Maturity buckets, sector weightings, allocation by credit ratings, yield to worst, etc.
 - j. Historic default and recovery rates
 - k. Up market and down market capture ratios for three and five years, using monthly data
 - l. Portfolio duration for each calendar quarter
9. What risk controls do you use? How is this monitored and enforced? Do you have a separate risk management team?

10. How do you handle downgrades and defaults? How many defaults have you had in your HY portfolio? Please identify the two most recent defaults and describe your actions and the outcome.
11. Does this product have any capacity constraints? If so, at what asset level will you close this product?
12. Please provide curriculum vitae of the key people in (a) senior management, (b) risk management, (c) trading, (d) HY product portfolio managers, (e) HY analysts and (f) any other investment professionals involved in HY investment decision making.
13. Please list any senior management personnel, portfolio managers or analysts that have left or joined the firm in the past three years. Please include date of employment, date of departure and the products with which they were involved.

III. Product Performance

1. Please submit, in a separate Excel spreadsheet, the Product's monthly, quarterly and annual returns since inception, both Gross and Net of Fees (Fees based on a \$10 million account) using the following format (expand as necessary):

| Year | Jan | Feb | Mar | 1stQ | Apr | May | Jun | 2ndQ | Jul | Aug | Sep | 3rdQ | Oct | Nov | Dec | 4 th Q | Year |
|-----------------------------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|-------------------|------|
| <u>2012 Returns</u> | | | | | | | | | | | | | | | | | |
| Product (Gross) | | | | | | | | | | | | | | | | | |
| Product (Net) | | | | | | | | | | | | | | | | | |
| Benchmark | | | | | | | | | | | | | | | | | |
| <u>2011 Returns:</u> | | | | | | | | | | | | | | | | | |
| Product (Gross) | | | | | | | | | | | | | | | | | |
| Product (Net) | | | | | | | | | | | | | | | | | |
| Benchmark | | | | | | | | | | | | | | | | | |

Also please provide cumulative 3-, 5-, 7-, 10-year and since inception returns, Gross and Net of fees and compared to Benchmark.

2. Please provide an independent GIPS Compliance Report for this product or composite. If no GIPS Compliance Report is available, please provide the following:
 - Average number of issues in each portfolio at each calendar year-end
 - Average portfolio credit quality at each calendar year-end
 - Average portfolio duration at each calendar year-end
 - Asset and number of accounts in the composite at each calendar year-end
 - Dispersion of returns among all similar mandates for each calendar year
3. Has your firm information and your HY product data been submitted to Wilshire Compass and updated as of 3/31/2013?

IV. Fees

1. What is your standard fee schedule for this product? Provide both separate accounts and commingled vehicles if applicable.
2. Are you willing to provide a “most favored nations” status to this account, guaranteeing the Pennsylvania Turnpike Commission will always have the lowest fee rate available for similar mandates and account size?

Confidentiality Notice:

This document contains confidential information. The information is intended for the use of the individual (s) or organization named above. If you are not the intended recipient, you are notified that any disclosure or taking action in reliance on the contents of this document is not permissible. If you have received this telecopy in error, please notify IPS by telephone at the number above to arrange for the return of this document.