

NOTICE  
OF BREACHES  
DEC 10 2010



COPY

STATE OF IDAHO  
OFFICE OF THE ATTORNEY GENERAL  
LAWRENCE G. WARDEN

December 10, 2010

Key Trust Company of Ohio  
Attention: Bill Allen  
127 Public Square  
Cleveland, Ohio 44114

Re: Notice of Breaches and Demand for Cure of Breaches

Dear Mr. Allen:

I am counsel to the State of Idaho, Office of the Treasurer (Idaho Treasurer). The Idaho Treasurer has asked that I contact you concerning the Securities Lending Agreement between Key Trust Company of Ohio (Key) and the Idaho Treasurer dated as of January 26, 2000 (Agreement).

Notice of Breaches

With this letter, I notify you of the following breaches of the Agreement.

The Agreement provides that Key is authorized to invest collateral arising from securities lending under the Agreement only in approved investments. Approved investments are defined as investments conforming to Idaho law and within the standards set forth on Exhibit A to the Agreement. Idaho Code §§ 67-1210 and 1210A define the permitted investments for the Idaho Treasurer. Exhibit A to the Agreement specifies the maturity requirements, which in no case exceed three (3) years final maturity or putable to issuer.

The Agreement further provides for a specific method of calculating the agent's fee. The agent's fee is assessed as a percentage of the net realized income derived from approved investments plus any securities loan fee paid by the borrower minus any rebate paid by Key to the borrower.

Records obtained by the Idaho Treasurer show that Key has invested in investments that are not approved investments. The investments are either not permitted by Idaho Code or have a final maturity in excess of three (3) years and are not putable to issuer, or are both not permitted by Idaho Code and exceed the maturity requirements.

Key Trust Company of Ohio  
Attention: Bill Allen  
December 10, 2010  
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The Idaho Treasurer has also determined that Key has failed to correctly invoice the agent fee. Key has been assessing fees based upon gross income and failing to realize losses as required to establish a net realized income figure.

Demand for Cure

The Idaho Treasurer makes the following demands.

The Treasurer demands that Key immediately and at no cost or loss to the state of Idaho cause the Idaho Treasurer's account to contain only approved investments.

In addition, the Idaho Treasurer demands that Key make the Idaho Treasurer whole for all losses arising from investments during the term of the Agreement that are or were not approved investments. Accordingly, the Idaho Treasurer also demands that Key audit its records for the term of the Agreement and provide a full accounting and refund to the Idaho Treasurer of fees that exceeded those allowed by the Agreement.

The Idaho Treasurer requires that Key cure these breach of the Agreement within ten (10) days of the date of this letter. Written proof and confirmation that Key has cured these problems should be sent to me at the address indicated in this letter within the ten (10) day period.

Sincerely,



JULIE K. WEAVER  
Deputy Attorney General  
Contracts and Administrative Law Division

JKW/sb

c: Ron Crane, Idaho State Treasurer



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LAWRENCE G. WARDEN

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Cleveland, Ohio 44114

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Sincerely,



JULIE K. WEAVER  
Deputy Attorney General  
Contracts and Administrative Law Division

JKW/sb

c: Ron Crane, Idaho State Treasurer

**William R. Allen**  
Senior Managing Director  
Securities Lending

RECEIVED  
DEC 21 2010  
Office of the Attorney General  
Contracts and Administrative Law

**Victory**  
Capital Management  


127 Public Square  
Cleveland, Ohio 44114-1306

December 16, 2010

State of Idaho  
Office of the Attorney General  
PO Box 83720  
Boise, ID 83720  
Attention: Julie K. Weaver

Dear Ms. Weaver:

We received your letter yesterday, December 15. We have had a preliminary discussion of your concerns, and I have forwarded your letter to our Legal Department.

I expect that they will reply to you in a timely manner.

Sincerely,



cc C. Ohmacht

RECEIVED

JAN - 3 2011

Office of the Attorney General  
Contracts and Administrative Law



KeyBank National Association

Mailcode: OH-01-27-0200

127 Public Square

Cleveland, OH 44114-1306

December 22, 2010

VIA FIRST CLASS MAIL and  
FAX TO (208) 854-8070

Julie K. Weaver  
Deputy Attorney General  
Contracts and Administrative Law Division  
P.O. Box 83720  
954 W. Jefferson - 2nd Flr.  
Boise, Idaho 83720-0010

Re: Letter to Key Trust Company dated December 10, 2010 (the "Letter")

Dear Ms. Weaver:

I am in-house counsel to KeyBank National Association, successor by merger to Key Trust Company of Ohio ("Key"). We have received and reviewed the allegations and demands set forth in your Letter. Key denies that it has breached any contracts or other agreements with the State of Idaho, or that it has otherwise acted inappropriately in any manner, and thus respectfully declines your "Demand for cure" set forth in the Letter. Further we note that all relevant investments were approved by the Idaho Treasurer's Office.

Key will continue to manage the securities lending program according to Idaho's wishes, and will continue to follow its instructions in that regard. We are also willing to sit down and discuss this matter further with you and your client.

To summarize, Key does not believe that there is any basis to support the allegations or demands in the Letter. Key furthermore reserves all of its rights with respect to this matter.

Please contact me should you have any questions.

Very truly yours

Gregory J. Edgehouse  
Senior Vice President & Managing Counsel