**5.0 TECHNICAL PROPOSAL – GLOBAL CUSTODY**

In this section, the bidder shall describe its approach and plans for accomplishing the work outlined in the Section 3.0 Scope of Work (exclusive of Securities Lending, which is included in Section 6.0). The bidder must set forth its understanding of the requirements of this RFP and its ability to successfully complete the contract. This section of the proposal should at a minimum contain the information identified below, including the bidder’s answers to the questions presented.

The questions below should be included in the proposal followed by its corresponding answer. For convenience, the questions in this section are included as an MS Word attachment to this RFP.

* 1. **OVERVIEW**

Provide a summary statement of no more than three (3) pages stating why the bidder’s proposal is most able to provide the services listed herein to the DOI, as well as how the bidder meets the minimum requirements to bid.

The summary should address the bidder’s overall technical approach and its plans to meet the requirements of the RFP in a narrative format. This narrative should demonstrate to the State that the bidder understands the objectives that the contract is intended to meet the nature of the required work and the level of effort necessary to successfully complete the contract. It should also demonstrate that the bidder’s general approach and plans to undertake and complete the contract are appropriate to the tasks and subtasks involved.

* 1. **IMPLEMENTATION PLAN AND CONTRACT MANAGEMENT**
     1. Provide a time table for implementation of the contract beginning with the date of notification of contract award. At a minimum, this should address the timeframes for setup of daily communication; pre- and post-trade interfaces; parallel testing; conversion of assets; and reconciliations set-up and interfaces. Ensure that plans for the conversion and implementation includes detail for the following systems and functions:
* Custody
* Accounting and Auditing
* Reporting
* Alternative Investment Platform
* Performance
* Compliance
* Corporate Actions
* Class Action Claims
* Proxy Processing
* Securities Lending
* Parallel processing
* Testing of electronic feeds
* Risk Management (optional)
* all other applicable systems

* + 1. Describe the bidder’s plan to communicate with the DOI including, but not limited to, communication with the DOI Contract Manager, status meetings and status reports.
    2. Describe the bidder’s plan for the use of subcontractor(s), if any, on this contract. Kindly state each subcontractor’s name and the services to be performed by the subcontractor . Emphasis should be on how any subcontractor identified will be involved in the mobilization and implementation plan.

* 1. **ORGANIZATION**
     1. Provide a brief history of the bidder and its operation with the most important milestones. Include the year formed, ownership structure, as well as any ownership changes within the past five years. Are there any pending plans for ownership changes? Describe any joint ventures or affiliations, including any ownership the bidder or any entity under its control may hold in partnerships and/or other investment firms.
     2. Please provide the total assets and number of current U.S.-based custody clients (do not include non-U.S. based clients) by type:

As of September 30, 2014

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ***No. of clients*** | | | | | | | **Total Assets**  **$ bn** |
|  | <$100mm | $100 to $500mm | $500mm to $1 bn | $1 to  $5 bn | $5 to  $15 bn | >$15 bn | **Total Clients** |
| Corporate |  |  |  |  |  |  |  |  |
| Taft-Hartley |  |  |  |  |  |  |  |  |
| Public |  |  |  |  |  |  |  |  |
| E&F / Not-for-Profit |  |  |  |  |  |  |  |  |
| Insurance |  |  |  |  |  |  |  |  |
| Defined Contribution |  |  |  |  |  |  |  |  |
| Mutual Funds / Investment Managers |  |  |  |  |  |  |  |  |
| Other (please specify) |  |  |  |  |  |  |  |  |
| **Total** |  |  |  |  |  |  |  |  |

* + 1. Provide a copy of your standard custody agreement. Note that the provisions of the agreement cannot be inconsistent with the provisions of the New Jersey Standard Terms & Conditions and/or this RFP. If your standard agreement must be modified to conform to the New Jersey Standard Terms & Conditions and/or the requirements of this RFP, please indicate that the proposed changes have been reviewed and approved by your legal representative.
    2. Describe the levels and types of insurance coverage with respect to your custody and securities lending business.
    3. On average, over the last five years, what percentage of the parent’s profits has been contributed by Global Custody, including Securities Lending?
    4. What percentage of your Global Custody profits can be attributed to Securities Lending activity?
    5. What specific investments have been made to improve your Global Custody operations over each of the last three years? Please specify dollar amounts by year and by project.
    6. What plans do you currently have to improve your Global Custody product? Discuss the potential for service disruption as these improvements are implemented.
    7. Have you acquired any custody business from other institutions? If so, describe the business acquired and the status of the transition.
    8. Describe your policies regarding confidentiality of client information.
    9. Describe any ongoing educational programs, client conferences, publications, internet access, or other means you provide to keep your clients informed of new industry practices, techniques and other trends.
    10. Describe the external audit relationship and internal audit organization controls you have in place to assure that your custody service are provided in accordance with proper standards of care, regulatory requirements and contractual agreements in place.
    11. Describe the resources dedicated to regulatory affairs relating to the custody and securities lending businesses. Detail your efforts to comply with recent and upcoming financial regulation legislation (e.g. Dodd-Frank). How will this affect both operations and future budgets for the master custody and securities lending divisions?
    12. Describe and explain recent account losses.
    13. Describe your new business goals and objectives for the next three years.
    14. Describe what it means to be a successful custodian. How do you think that will change in the next five years?
    15. Describe three recent examples where your organization exhibited “thought leadership” in custody services.
    16. What is the nature and size of any “off balance sheet items” in your annual report and identify the three greatest areas of risk exposure to the bank?
    17. Provide the following data and explain their implication.

Capital Base as of September 30, 2014

|  |  |  |
| --- | --- | --- |
| METRIC | CURRENT MEASURE | CURRENT REQUIREMENTS FOR “WELL CAPITALIZED” |
| Total Firm Assets |  |  |
| Total Capital Base |  |  |
| Tier 1 Capital |  |  |
| Tier 2 Capital |  |  |
| Tier 1 Risk Based Capital Ratio |  |  |
| Total Risk Based Capital Ratio |  |  |
| Tier 1 Leverage Ratio |  |  |
| Supplemental Leverage Ratio |  |  |

* + 1. Provide your organization’s current short term and long term credit ratings by Moody’s, Standard & Poor’s, and Fitch.
    2. Are there any current organizational issues (i.e., mergers, acquisitions, personnel changes, business concerns, etc.) regarding your organization? Please provide detail for the last three (3) years.
    3. Is there any pending or threatened litigation against your organization? Is there any agency supervision? What has been your experience with regard to litigation or agency supervision over the past five years?
    4. Please describe your business continuity and disaster recovery plans. When was the most recent test done? Indicate the date and results of the last testing of such plan(s) and continue to report immediately to DOI the results of any subsequent test through date of award.
    5. What will be the recovery time(s) and service level for critical custodial services in the case of a major disaster or continuity event?
    6. Who is your compliance provider? In-house? External? For how long?
    7. Who is responsible for compliance within the firm? Provide an organizational chart of the firm’s compliance function.
    8. With which regulatory bodies is the firm registered?
    9. What internal resources are dedicated to overseeing operational or business risk within the firm (e.g., compliance, risk committee, governance committee, internal audit, etc.)? Briefly describe the process.
    10. Do the management oversight and governance functions include independent representatives (e.g., outside Board members or audit committee members)? Please describe.
    11. Describe any “soft” revenue you receive from custody services related to this contract, including:
        1. Instances where the bank receives interest payments on client’s assets.
        2. Instances where the bank receives a fee or generates income from a bid-ask spread.
        3. Other instances that are NOT listed above or disclosed in the fee proposal.
  1. **EXPERIENCE WITH CONTRACTS OF SIMILAR SIZE**
     1. The bidder should provide documented experience to demonstrate that it has successfully performed work on contracts of similar size and scope.
     2. Provide a representative list of U.S. institutional clients with assets over $10 billion for whom you provide global custody services and securities lending services. Include at least three, and up to five, references for large public, corporate, or sovereign wealth funds with similar complexity as DOI, defined as follows: (a) multi-billion dollar asset pools; (b) over 25% of assets traded internally; (c) over 10% of Alternative Investment exposure, with Alternative Investments defined as the combination of hedge funds, private equity, real estate, and real assets; (d) requiring a high level of client support, and (e) with a securities lending program.

Provide the following information:

* Name of client;
* Name of client contact, title, telephone number, e-mail address;
* Client type;
* Year hired;
* Asset size as of 09/30/14;
* Indicate whether global or domestic custody client;
* Indicate whether client may be contacted by DOI;
* Indicate size of securities lending portfolio;
* Indicate percentage of assets traded internally; and
* Indicate percentage of alternative investment exposure and specific sub asset classes within alternative investments.
  + 1. Provide client turnover information for US-based global and domestic custody clients (plan sponsors and investment managers) for each of the last three calendar years and nine months ending September 30, 2014.
    2. Provide client turnover information for US-based global and domestic securities lending clients for each of the last three calendar years and nine months ending September 30, 2014.
    3. For each client gained, provide the following information:
* Name of client gained;
* Client type;
* Date hired; and
* Assets gained (in $ million).
  + 1. For each client lost, provide the following information:
* Name of client lost;
* Client type;
* Date hired;
* Date terminated;
* Assets lost (in $ million); and
* Indicate whether DOI may contact the client.
  1. **PERSONNEL**
     1. Provide an organization chart and details regarding the proposed staffing plan, including short bios, for custody, accounting, alternative investment, compliance and performance services, including the plans to provide on-site support. Include the physical office location of each person. Include information regarding proposed backup staff.
     2. Provide the staff to client ratio for each proposed staff member.
     3. Describe how client relationships are serviced, including how responsibilities are allocated among client service professionals.
     4. Does your organization have a separate operational group dedicated to alternatives administration (e.g. handling capital call/distribution services for custody clients)? Please describe.
     5. Describe your issue resolution process from notification through escalation and resolution, including any automated tools used.
     6. List management personnel devoted exclusively to global custody for U.S. tax-exempt clients. Provide the following information:
* Name and Title
* Function
* Number of Years with Global Custody Division
* Years of Global Custody Experience
  + 1. If you employ a team approach to client service, describe a typical team, its composition, the functions of each member, their experience, and client loads. How are new teams formed?
    2. For each of the categories listed below, provide the number of professionals dedicated to providing global custody services to U.S. based clients. Also provide a breakdown by office location. (Do not double-count and do not include professionals who work in sub-custodian offices.)
* Client Service
* Securities Lending
* Report Generation
* Data Collection
* Systems
* Accounting and Auditing
* Cash Management
* Investment Manager/Adviser Liaison
* Marketing
* Compliance
* Performance
* Alternative investments
* Class Actions Monitoring
* Proxy Processing
* Other
  + 1. How many professionals involved in providing global custody services to U.S. tax-exempt clients were hired and lost during each of the past three years? Organize your response according to the following categories:
* Client Service
* Securities Lending
* Report Generation
* Data Collection
* Systems
* Accounting and Auditing
* Cash Management
* Investment Manager/Adviser Liaison
* Marketing
* Compliance
* Performance
* Alternative investments
* Class Actions Monitoring
* Proxy Processing
* Other
  + 1. Explain any significant personnel turnover in the last two years including arrivals and departures of exceptional magnitude and of key management personnel.
    2. How are global custody personnel compensated?
    3. Describe any additional compensation programs the firm has instituted to motivate global custody personnel.
  1. **LOCATION**
     1. Identify the location of the main offices of the bidder.
     2. Identify the location of the office(s) of the bidder from which services would be provided to the State of New Jersey.
     3. Does the firm have an office or branch registered and operating in the State of New Jersey? If no, provide plans for complying with the requirements of N.J.S.A. 52:18A-8.1.
  2. **FINANCIAL CAPABILITY OF THE BIDDER**
     1. Please submit the bidder’s most recent 10Q and 10K, if applicable, and audited financial statements, which include a balance sheet, income statement and statement of cash flow, and all applicable notes for the most recent calendar year or the bidder’s most recent fiscal year.
     2. Has the audit opinion on the bidder’s financial statements been "unqualified" or “unmodified” for the last three years? If not, please explain. Has the bidder had a change in auditors over the last three years? If so, explain why.
     3. A bidder may designate specific financial information as not subject to disclosure when the bidder has a good faith legal/factual basis for such assertion. A bidder may submit specific financial documents in a separate, sealed package clearly marked “Confidential-Financial Information” along with the proposal. The State reserves the right to make the determination to accept the assertion and shall so advise the bidder.
     4. Does your insurance cover all of your global custody and securities lending activities?
     5. Does the firm have an internal audit department?
     6. Is the firm in compliance with Sarbanes Oxley? What changes have you implemented to be in compliance with these obligations?
     7. Has your organization been designated as “too big to fail?” Has the firm failed any stress tests? What are the implications for your custody and securities lending businesses?
     8. Describe the type of SSAE 16 report issued (type I or type II) and discuss its implications.
        1. Describe your emergency management / disaster recovery plan.
        2. Describe your experience during the 2011 Japanese earthquake and tsunami.
        3. Describe your experience during Hurricane Sandy
  3. **POTENTIAL PROBLEMS**

Provide a summary of any and all problems that the bidder anticipates during the term of the contract. For each problem identified, the bidder should provide its proposed solution.

* 1. **CUSTODY AND TRADE SETTLEMENT**
     1. Describe in detail how you will comply with the requirements set forth in Section 3.1.
     2. Please describe, in detail, your procedures for trade processing instructions.
     3. Indicate your pricing source(s) for each of the following. Also provide the quote time (i.e., New York, London, etc.) and the market(s) quoted for each. For non-U.S. securities, be sure to include Emerging and Frontier markets.
* Non-U.S. Stocks
* U.S. Stocks
* Non-U.S. Bonds
* U.S. Bonds
* Spot Currency Rates
* Derivatives (Settled)
* Derivatives (Unsettled)
* Other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + 1. Confirm your ability to use alternate pricing sources based upon client direction. Describe how pricing disputes are resolved. Is the system able to incorporate and detect pricing issues such as:
* Price variances from prior day based on user-defined rules
* Exchange rate variances from prior day based on user-defined rules
* Missing prices and exchange rates
* NAV impact of price changes
* Stale pricing
* Auto-comparison of primary prices to secondary/tertiary sources
  + 1. Do you have any restrictions as to the type of securities you will hold in safekeeping?
    2. How do you price securities that don’t have CUSIPs/SEDOLs, are not available from your pricing service and/or other assets that are difficult to price?
    3. In what instances do you assign an internally generated security identifier and not utilize a market identifier? Provide details.
    4. Discuss your specific operational procedures for settling purchases and sales, identifying any distinctions for a) different asset classes, b) physical and book entry, and c) domestic and international, including both:
       1. Actual settlement date processing
       2. Contractual settlement date processing
    5. Describe your procedures for handling a failed trade for both domestic and foreign securities, and for reporting pending and failed trades to the client and to the investment adviser, and how they are resolved. What steps are taken to minimize trade failures?
    6. Describe your process in assisting clients in opening accounts in other countries. Describe the process in completing the necessary paperwork, including what resources DOI would need to dedicate. Please discuss your subcustodians’ willingness to accept modifications to standard templates.
    7. What level of assistance are you willing to provide with respect to local tax requirements when opening new accounts?
    8. What is your fail rate for securities sold or purchased, by country, for each of the last three years?
    9. What are your policies regarding actual versus contractual settlement for domestic and international securities?
  1. **DERIVATIVE SERVICING**
     1. Describe in detail the derivative services included in your proposal (e.g., collateral management, valuations, reconciliation, servicing, trade capture, etc.).
     2. Do you have different levels of service available for each of the services described above? If so, please explain.
     3. Is the processing of derivative instruments such as futures, swaps, and options done within the main accounting system? Is there a separate module or system dedicated to handling such securities?
     4. How is performance calculated for derivatives?
     5. Describe the structure of the team that supports derivative servicing, including biographies on the key individuals and locations.
     6. When marking collateral with a dealer, do you rely on the dealer’s price or are you using an independent, third-party valuation?
     7. For reconciliation, do you follow the guidelines set by ISDA on which attributes should be reconciled for each type of derivative? If not, how do you determine which attributes to reconcile?
     8. Describe the electronic tools you utilize to provide these services. Specify if they are proprietary, off-the-shelf, or a combination.
     9. Provide a sample derivative reporting package that is provided to clients.
     10. Do clients have access to information online? If so, describe.
  2. **SUBCUSTODIAL NETWORK**
     1. Please provide the following information for each country you operate in:
* Name of sub-custodian bank and whether owned by the firm
* Is the sub-custodian bank part of your organization (affiliate or subsidiary of same parent)?
* Date hired or established
* Is your sub-custodian a depository or clearing agent?
* What is the U.S. dollar amount custodied as of June 30, 2014 for each country?
  + 1. List all sub-custodians terminated within the last five years and state the reason for and date of termination. (Please include an attachment as necessary.)
    2. Describe in detail how you select sub-custodian banks, including due diligence you conduct when establishing registration. Please provide a registration due diligence checklist if you have one.
    3. Describe how you monitor sub-custodian performance. How often do you visit their offices?
    4. Do you guarantee all sub-custodian performance? Do you indemnify against losses caused by errors and omissions of sub-custodians?
  1. **ACCOUNTING AND AUDITING** 
     1. Describe in detail how you will comply with Section 3.2.
     2. Do clients have a dedicated accounting team? Where are the accounting teams located?
     3. What audit checks are employed to confirm daily net asset values?
     4. What are your income collection and income crediting policies regarding crediting of interest/dividends and principal on contractual settlement date, including principal payments associated with mortgage- and asset-backed instruments?
     5. What are your international income collection and crediting policies by country? Be specific as to which countries are excluded from contractual settlement processes.
     6. Describe special procedures you employ for processing, valuing, and reporting derivative products, including futures, forwards, options, etc.
     7. Describe your ability to adhere to applicable GASB, FASB and other accounting requirements on all DOI accounts.
     8. How many degreed accountants work in your trust/custody and accounting departments and in what capacity?
     9. Provide an overview of your accounting system and the basis you use to record activity.
     10. Describe the processing of tax claims on foreign income and the level of DOI staff involvement. Can your system maintain different entity types (e.g., public pension and state government) for one tax id number?
     11. Describe your custodian/sub-custodian process and coordination with tax agents in markets that require them. Identify the markets requiring tax agents.
     12. Describe the process of accounting/collecting for tax claims from a prior custodial relationship.
     13. Describe any other services that are included in your proposal outside the required Scope of Services. Indicate whether the services are available through an online platform.
     14. Provide in the chart below the trade volume (number and market value size) that you processed for the year ending June 30, 2014 and the percentage of failed trades for US securities.

|  |  |  |  |
| --- | --- | --- | --- |
| Trades | Volume (Number) | Total Market Value in US$ millions | Fail Rate(%) |
| Purchases |  |  |  |
| Sales |  |  |  |

* + 1. Provide in the chart below the trade volume (number and market value size) that you processed for the year ending June 30, 2014 and the percentage of failed trades for non-US securities.

|  |  |  |  |
| --- | --- | --- | --- |
| Trades | Volume (Number) | Total Market Value in US$ millions | Fail Rate (%) |
| EAFE |  |  |  |
| Emerging/Frontier |  |  |  |

* 1. **REPORTING**
     1. Describe in detail how you will comply with the requirements of Section 3.3.
     2. Is the custody system integrated with the performance, accounting, alternative investment and reporting systems? Discuss how the systems function together. Do all systems run on the same integrated platform? Are they integrated through the same interface? If applicable, please include a description of the processes that are used to ensure the data between systems reconciles.
     3. Do updates or changes to data on the custody system occur intra-day or do clients have to wait for the overnight process to run in order to view any changes?
     4. Describe your system of quality control to ensure reporting accuracy. Are reports audited before they are delivered to clients? Who audits and corrects reports?
     5. Describe your process for restating incorrect accounting statements and publishing new reports.
     6. For what period of time is daily transaction and position information available online? How many years of data does your system have available online? Does this include back-loaded legacy data? If this varies by system (e.g. custody, accounting, performance, etc.), please provide by system.
     7. Discuss your reporting capabilities, including a listing of asset/liability, income/expense, and transaction categories available. Can new categories be added?
     8. List and provide samples of the standard reports (audited and unaudited) provided by your system. Note the frequency and time available for daily, monthly, quarterly, annually, and by exception. When are they delivered (i.e., time of day or number of business days after the end of the relevant period)?
     9. What steps are taken to ensure the daily accuracy of your reports? What reconciliations are performed? Are reports reconciled before they are accessible by clients? If so, by whom?
     10. Describe the process you would use to reconcile data and resolve discrepancies with respect to both the internally traded and external adviser accounts. How do you resolve discrepancies with investment advisers and how are errors or differences corrected? What internal tolerances does the firm use to investigate and challenge pricing with your external sources?
     11. Do you have a deadline by which adjustments can be recorded to a prior month and, more specifically, to the June 30 financial records? Does your accounting system allow for topside adjustments? Assuming the final fair values for alternative investment funds are not received until August, how will the adjustments be processed and recorded within your system? Will the June 30 adjusted trial balances be online or off-line?
     12. Describe the integration and reconciliation procedures performed regarding client or third party information reported in the custody/accounting, securities lending, and performance systems. In particular, describe in detail the applicable procedures employed to record securities lending activity in the daily and monthly financial statements.
     13. Confirm that your systems have the ability to capture and report brokerage commissions by executing (not clearing) broker. Provide examples of such reports.

* + 1. Describe online editing, downloading and report writing capabilities. Describe what measures are taken to ensure the accuracy and timeliness of information available to your client online.
    2. During what hours is the online system accessible by your clients?
    3. What internal procedures and controls exist to assure that the following information and data are reported correctly, accurately, and that transactions are authorized?
* Trade settlement receipts and disbursements
* Interest and dividend receipts
* Income accruals and reversals
* Cash transfers
  + 1. Describe how you plan to provide custody, accounting and reporting on a legal entity basis for all Funds and performance reporting on an asset allocation plan basis for the Pension Fund. Include details of the system capabilities, which include, for example, whether individual assets are tagged or whether the system uses multiple sub-accounts within the custody and accounting modules. If there are multiple approaches available, please include pricing for each option.
    2. For multi-currency reporting, does the report identify: the country, the industry, the currency, and security levels? Do you have the capacity to report in both the local currency and translate to the reporting currency?
    3. Describe your process for providing customized reports to our specifications, both at the onset of the relationship and ongoing. Provide typical turnaround times for customized reporting requests. Is customization available to the end-user through ad hoc query tools?
    4. Please describe any recent or planned reporting enhancements.
    5. Provide three examples of your capabilities to assist clients in responding to evolving regulatory requirements. (Please be specific about current efforts with respect to Dodd Frank, EMIR, etc.).
    6. Describe your capabilities to assist clients to comply with GASB reporting requirements.
    7. Describe your ability to provide daily unitization. Are there any limits to the number of investment pools or holder groups? Please describe the level of report customization available.
    8. Please provide a sample of unitized reports by holder group.
    9. Do you provide “look through” capabilities for holdings in commingled funds, limited partnerships and similar entities?
  1. **ALTERNATIVE INVESTMENT PLATFORM**
     1. Please confirm your ability to comply with the requirements of Section 3.4. Is the Alternative Investment Platform software required by Section 3.4 proprietary to Contractor or provided through a third party?
     2. Will you provide administrative and technical support for the use of the software?
     3. Describe the process for loading historic cash flows and performance data into the software product, as well as for providing, in electronic form, detailed summaries of all portfolio partnerships’ documents and terms as well as the documents themselves in digital form.
     4. Describe the plan for accomplishing the conversion and how the platform operates.
  2. **CASH MANAGEMENT**
     1. Describe in detail how you will comply with the requirements set forth in Section 3.5.
     2. What investment vehicles are available to DOI for short-term investments (i.e., sweep vehicle, STIF, etc.)? Please identify and describe the following for each fund or investment vehicle:
* Investment Philosophy/Investment Advisor
* Objectives and Guidelines
* OCC Reg 9 or SEC Rule 2a-7
* Exposure Limits
* Credit Quality
* Duration
* Maturity
* Derivatives Policy
* Floating Rate Note Policy
* Annual Investment Performance Net of Fees - for the last five years
* Total expense ratio, including management fees
* Availability of daily liquidity
* Description of any defaults, asset write-downs, required cash infusion to preserve principal value or other problems since inception.
  + 1. Have any of the short term investment vehicles available to tax-exempt funds and public funds above ever broken the $1 (buck or par) or experienced losses or liquidity restrictions? Please explain.
    2. For each of the short term investment funds or vehicles available, what are the current market values as of September 30, 2014? For each of the funds, what is the market value holding percentage controlled by the three biggest participants in the funds?
    3. Do you charge daily transaction costs for cash sweeps or 12-b1 fees?
    4. Is interest paid on uninvested balances in foreign country accounts? Explain.
    5. Is there an automatic cash sweep into STIF? Can you accommodate a sweep into an externally managed STIF? Please discuss whether the use of external funds would cause delays in cash sweep transactions or require an earlier cut-off time for transactions and measures that you would take to mitigate such issues.
    6. If a client overdraws an account for an overnight investment, will the client be charged the STIF rate for the overdraft?
    7. If the bank erroneously debits an account overnight, at what rate will the bank reimburse the client for the overnight use of client funds?
    8. How often is STIF interest accrued and when is it credited?
    9. What is your time deadline for a wire to be credited the same day? What is the time deadline for initiating wires?
    10. Please describe the cash management section and provide biographies of the people involved in managing the STIF.
    11. What provisions are there for the investment of non-dollar balances? Are there minimum balances required, if so what are they?
    12. What is your daily overdraft policy? What is your schedule of charges for overdraft positions?
    13. Overdrafts can occur because of the failure of the custodian to deliver the requisite foreign currency to settle a trade, differing settlement standards (asset class and countries), sub-custodian error, inability to recall securities that are out on loan, errors in trade processing and cash position monitoring, failure to communicate and reconcile with the DOI and its investment advisers daily, and/or a trade fail that emanates from the custodian. Do you automatically apply overdraft charges regardless of the party in error? Please describe your policy.
    14. Related to the question above, if custody related overdrafts occur, does DOI have the right to receive reimbursement equal to what your overdraft charges would be on a daily basis that the overdraft position is open or unresolved? Please explain.
    15. What is the cut-off time for cash contributions received during the day and invested same day? What is the latest cut-off by sweep vehicle or fund? Please provide details.
    16. What is your notification period for cash disbursements? Please provide details.
    17. Do you have the capability to provide a cash availability projection report by currency? How many days is the cash projection (i.e., 5 days, 10 days, 30 days, 60 days or 90 days)? Please provide details.
    18. What is your policy on the collection and crediting of domestic and foreign dividend and interest payments? When are the funds credited and available for use? Provide a country-by country analysis.
  1. **FOREIGN EXCHANGE**
     1. Describe in detail how you will comply with the requirements of Section 3.1.15.
     2. Describe your foreign exchange (FX) operations and capabilities. Please include in your discussion whether you are able to process third-party transactions; the physical location of the operations for the traders and execution facilities; the number of people involved; timing requirements and response time; and currencies exchanged.
     3. Do you perform FX transactions on a principal or agency basis?
     4. What is the mark up/mark down you charge custody clients for the following types of transactions: security buys and sells, repatriations, tax reclaims, and interest postings? At what time is the mark up/mark down applied?
     5. When are FX transactions executed (i.e. throughout the day, at open, at close, etc.) and are orders traded in large blocks or do you typically trade in smaller blocks over a longer period of time?
     6. How do you determine your trading strategy? How do you mitigate market impact risk?
     7. Do you net all client activity prior to making a FX transaction? If so, please describe in detail how you net client activity and whether this is net client by client or if you net across various clients when executing. Please differentiate between regulated and unregulated markets, if applicable.
     8. How does your firm demonstrate the competiveness of its foreign exchange? Describe the level of transparency provided to clients on all transactions.
     9. Will the firm ensure the custodial clients achieve best execution? Provide details.
     10. Will the firm use a competitive bidding structure to execute FX transactions?
     11. Will the firm be able to provide performance reporting or best execution reports for FX transactions? What do you use as a benchmark for FX trades when evaluating execution quality? Please include a sample report.
     12. Is there online access to foreign exchange information?
     13. Is your organization able to provide a “time-stamped” FX trade and disclose at what price the firm valued the FX Trade? What fraction of a second will be reflected in the time stamp?
     14. What percentage of your custody and trust clients utilize the firm for FX transactions versus a third party?
     15. What if any, business risk does the firm assume as part of its exchange services?
     16. Are security trades treated differently than repatriation of dividends, corporate actions, and other periodic receipts?
     17. Describe your standing instruction process and program options.
     18. Describe your compensation resulting from an exchange.
     19. Is there a standard fixed spread?
  2. Does the spread vary by currency type?
  3. Can a client negotiate the spread based on volume?
     1. Please explain the process for batching, netting, pricing and execution according to each different set of instructions currently in place across separate accounts/types of transactions.
     2. What level of discretion does the custodian allow the plan or investment manager in election of foreign exchange brokerage services?
     3. Can you provide execution cost transparency for foreign exchange execution on behalf of a client similar to us conducted by brokerage? If yes, please provide the basis point cost and dollar cost (spreads and commissions) on the basis of total foreign exchange transaction dollar volume over each of the past 5 years, along with the calculation methodologies of these cost components.
     4. Is your organization willing to disclose both explicit and implicit costs of FX Trades? Provide details.
     5. Do you flag off-market transactions (considered to be 10% or greater variance) automatically? Provide details
     6. Are off-market transactions reviewed independently and the reasons for the price indicated in the review process? Please provide details.
     7. Is interest paid on uninvested balances in foreign country accounts? Explain.
     8. Do you participate in Continuous Linked Settlement (CLS)? Which bank counterparties participate with you in matching trades in CLS?
     9. How many counterparties do you trade with? What is the breakout of trading among these counterparties over the last one year period?
     10. Please describe your counterparty risk management program as it relates to FX trading.
  4. **CORPORATE ACTIONS**
     1. Describe your corporate actions services in detail and how your organization will comply with the requirements of Section 3.6.
     2. How do you provide notification of voluntary and mandatory corporate actions including dividend payments, stock splits, mergers, acquisitions, tenders, warrants, puts, calls, and other non-scheduled redemptions, in a timely manner to DOI? How do you ensure that the corporate action is responded to in a timely manner by DOI?
     3. If the custodian, or its sub-custodian or its depository makes a mistake on a corporate action for which it received information and proper instructions that results in a loss to a client, describe the custodian’s procedures for reimbursing the client.
     4. Does your program accommodate a dividend reinvestment plan for stocks or REITS? Please explain.
  5. **CLASS ACTION CLAIMS**
     1. Describe your class action claims services in detail and how your organization will comply with the requirements of Section 3.7.
     2. Is your system able to advise clients of significant dates and deadlines in respect to legal proceedings, including but not limited to opt-out elections in class action litigation, deadlines for filing claims and deadlines for filing bankruptcy notices or claims?
  6. **PROXY PROCESSING**
     1. Describe your proxy processing services in detail and how your organization will comply with the requirements of Section 3.8.
     2. For foreign securities, describe the custodian’s procedures for notification and processing of “blocked” shares during proxy voting periods. Do you offer segregated accounts to facilitate proxy voting in any markets?
  7. **TECHNOLOGY AND SYSTEMS REQUIREMENTS**
     1. Describe the effort within your organization to assure the integrity of the data transmitted to you by clients or their investment advisers. Please specify any requirements for the transmission of data via secure email or fax.
     2. Please describe the security measures in place to protect against unauthorized access to your systems.
     3. Indicate the location(s) of your administrative operations and computer facilities that support your custody, accounting and securities lending operations.
     4. Describe your system hardware. Indicate how long the current equipment has been in use.
     5. Describe significant system enhancement, changes and/or additions to the master custody and accounting systems that have been implemented over the past two years. What system enhancements, changes and/or additions are being considered over the next two years?
     6. Describe fully your online system and programming support staff dedicated to maintenance and enhancement of the system.
     7. Do you share computers with other areas of the parent company or do you have a separate dedicated master custody facility?
     8. Describe your process for real-time file back-up and off-site storage for data and software, including back-up locations.
     9. Describe your emergency management/business continuation plan. In your description, please identify:
* Alternative operating sites and the maximum time required to resume business operations.
* The date of the last testing and a summary of results or lessons learned.
* Where oversight authority for business continuity planning falls within the organizational structure.
* Prioritization schemes for business recovery.
* Any involvement with external business resiliency efforts (e.g., U.S. Federal or international efforts).
* Any independent evaluation of your business continuity program relative to your peers.
  + 1. How frequently and at what times of day does your custody platform interface with your accounting platform? How frequently and at what times of day does your accounting platform interface with your performance, compliance and other downstream platforms? If available, please provide a flow chart.
    2. How do you handle exception processing when a client requirement or deliverable forces you to deviate from the standard processing model? For example, how do you handle when a performance report needs to reflect accounting activity that may not be available at the normal time when data bridges from accounting to performance?
  1. **PERFORMANCE MEASUREMENT AND ANALYTICS**
     1. Describe your ability to meet the requirements set forth in Section 3.10. Describe any unique features of your performance system.
     2. Is there a dedicated performance and analytics group? Describe the group.
     3. Describe the performance attribution services(s) and reports included in your proposal, including the respective methodologies for each asset class defined in Section 3.0. Do you offer the ability to calculate performance for each asset class using both time-weighted and dollar-weighted calculation methodologies? Please discuss how your performance calculation system accounts for cash flows, both large and small.
     4. Can you provide performance on the basis of gross-of-fees and net-of-fees?
     5. Describe in detail your performance measurement and analytic services for alternative investments and the ability to adjust for lagged measures. Describe the treatment of distributions, capital calls and fees.
     6. Provide samples of reports required in Section 3.10, as well as screenshots of key aspects of your system’s capabilities.
     7. What optional reports are available? How are special requests handled? Is your system flexible enough to accommodate tailored reporting requirements? Confirm that your system will be able to supply the required information for the Monthly Director’s Reports (Exhibit A) by the eighth (8th) business day of the following month.
     8. Specifically describe how data is loaded into the system (i.e., electronically, manually, etc.) by asset class, including alternative investments and the timing for loading (i.e., daily, weekly, monthly).
     9. Describe how the asset data moves from custody to accounting to performance to reporting and how the performance data and reporting would be made available to DOI.
     10. What models/hierarchies/attribution (i.e., sector/sub-industry; region/country, etc.) are available in the performance system? How flexible are these models? Can new models be constructed? Please provide a sample report.
     11. Describe the process used to compute returns and produce reports. How is accuracy ensured? What audit checks are employed to confirm accounting records to the performance data? Indicate whether the system is internal or if you use an outside vendor’s service. If you use outside vendors, list them.
     12. How frequently are performance reports available (i.e., daily, monthly, or quarterly) and when are audited performance results available (i.e., number of business days after end of the reporting period)?
     13. Where applicable, how does your performance system handle financial futures, options, and forward contracts?
     14. How many portfolios, by type, do you measure each quarter? For how many clients? What is the average portfolio size? Client size?
     15. What outside data sources are used in your performance reporting?
     16. Will the month-end reports, including the following, be available by the eight (8th) business day of the following month?
* Returns
* Analytics
* Rankings
  + 1. Describe the types and sizes of your databases for the following:
* Total funds
* Equity styles
* Fixed income styles
* International investments
* Emerging markets (including frontier)
* Real estate
* Private equity
* Hedge funds
* Real assets
  + 1. How do you measure/rank private market performance?
    2. Are your performance calculations consistent with CFA Institute standards for performance measurement? GASB 67 standards for financial reporting? Describe the process to ensure GIPS compliance.
    3. Describe in detail how your system treats cash flows in accounts for computing performance.
    4. What global indices will you provide access to for benchmarking and building customized benchmarks? Can you create a customized index / blended benchmark for a particular account? Does DOI need to subscribe to any providers separately?
    5. Discuss your system’s ability to provide investment performance, including, but not limited to, internal rate of return, investment multiple, etc., for private markets.
    6. Does your system have online performance accessibility to the client? What information is available and how soon after the end of the month is it available? How is final audited information designated on the system?
    7. Describe the linkage from the accounting data to the performance system. What reconciliation procedures are performed? Is the performance measurement system integrated with the accounting platform? Provide details.
    8. Confirm the firm’s capability to backload returns and provide monthly, quarterly, calendar, and fiscal year-to-date, annual, one (1) year, three (3) year, five (5) year, ten (10) year, and since inception performance, in accordance with the requirements of Section 3.10.
    9. Provide details about how performance, gross and net of fees, is calculated for each period.
    10. Describe your reconciliation procedures with investment advisers for performance results and how any discrepancies are resolved and communicated to the client.
  1. **COMPLIANCE MONITORING AND REPORTING**
     1. Describe your compliance monitoring services in detail and how your organization will comply with the requirements of Section 3.11.
     2. Please describe your rule programming process. Do you have a centrally managed compliance rule writing team that maximizes its knowledge of programming through sharing or is it done by staff assigned to each client relationship?
     3. How do you work with new clients to adapt your system to their unique requirements?
     4. How long does it usually take to implement a compliance program for a new client of similar size and scope as DOI?
     5. Can your compliance service conduct off-line manual tests if your online system is unable to conduct the test? Please indicate which tests your system can do online versus manual.
     6. Do you have the ability to identify new regulations in global markets? Describe your ability to perform global market compliance rule testing and foreign investment disclosure monitoring. Describe your ability to file and/or assist DOI in filing reports to relevant agencies, both foreign and domestic.
     7. Do you have the ability to draft Section 13(f) filings?
  2. **TRANSITION / CONVERSION**
     1. Describe your process for transitioning in new accounts. How much lead time do you require to proceed with the conversion? Provide a detailed conversion timetable for custody, accounting, alternative investment tracking, compliance, and performance, assuming a start date of March 1, 2015 and a conversion date of July 1, 2015. Include in your plans the communication and planning process with third parties, and market openings. Be specific about DOI’s responsibilities and areas of involvement in the transition. This applies to incumbents as well as other bidders.
     2. Describe the training you would provide to the client’s staff during transition.
     3. Please describe your parallel processing plan during the conversion. What systems and process are truly paralleled in a test environment? How long does the firm recommend parallel processing?
     4. How do you ensure sufficient control during the transition period to assure that the process is successfully completed in both an accurate and timely manner?
     5. Has your transition team worked together before on a conversion over $50 billion during the past two years? Please describe.
     6. Which professionals are dedicated to transitions?
     7. At what point is the permanent client service team brought in?
     8. When is a transition deemed complete? Who signs off on a completed transition?
     9. What are the critical tasks necessary to complete a successful transition? What time frames are associated with each task? Describe in detail how the transfer of assets and cash from the prior custodian and subcustodians will be conducted to control the risk of loss and ensure all assets are properly transferred and accounted for at both market and historical cost.
     10. Give a description of your last comparable conversion and include the details of specific problems that occurred and the solutions implemented.
     11. Provide up to three large public fund references who were transitioned in the last three years.
     12. Provide up to three large public fund references who were transitioned out in the last three years.
     13. What professionals are dedicated to transitioning lost accounts?
     14. Describe your process for transitioning out lost accounts.
     15. Describe any procedural or timing differences which may exist between transitioning an international portfolio and a domestic portfolio.
     16. Describe your procedures for tracking and recording pending trades. How do you treat payables, receivables and accrued income in existence at the date of the transfer?
     17. What is your policy to make a client whole if an asset was not transitioned or failed to be accounted for after the conversion date? Who pays the client?
     18. What are the anticipated areas of concern and heightened level of sensitivity during the conversion process? What should DOI be concerned about with respect to tax reclaims, re-registration, accruals, etc.?
     19. How should securities out on loan during the conversion process be handled? What should be DOI consider in terms of unwinding without a loss, novation, substitution, recall, etc.?
  3. **SERVICE ORGANIZATION CONTROL (SOC) REPORT**
     1. Provide a copy of the firm’s most recent SOC report(s).
  4. **CLIENT CONFERENCES**
     1. Describe in detail how your organization will comply with the requirements of Section 3.15.
  5. **RISK MANAGEMENT PLATFORM (OPTIONAL)**
     1. Describe in detail, but limit to no more than two (2) pages, how your organization will comply with the requirements of Section 3.18.
     2. Provide sample reports and screen shots illustrating the capabilities of the system/platform.
     3. Indicate additional third-party services required for full implementation and whether the firm will be subcontracting those services.

**6.0 TECHNICAL PROPOSAL - SECURITIES LENDING**

* 1. **GENERAL INFORMATION**
     1. Describe your firm’s line of business and how securities lending fits within the bidder’s overall corporate structure.
     2. List and describe the physical locations from which the services will be provided.
     3. What is the approximate revenue and profit contribution of your securities lending business to the overall company revenue and profit in percentage terms?
     4. Are there any current organizational issues or concerns that we should know about? Has there been any significant personnel turnover in the last two years?
     5. Describe how securities lending personnel are compensated. Provide the incentive basis for bonuses.
     6. Describe any pending litigation with respect to the securities lending business.
     7. Provide a copy of the most recent SSAE 16 report.
     8. Provide a description of the various types of insurance coverage (carriers, risk coverage, levels, limits, deductibles, expiration dates , etc.) in place to protect your securities lending clients.
     9. Provide an organization chart of the overall securities lending business including a description of the relationship to the bidder’s overall organizational structure. Describe the bidder’s risk management oversight of the securities lending business.
     10. Provide names and brief profiles for the individuals responsible for the lending function and the cash collateral reinvestment function. If applicable, provide details by asset class.
     11. Does your organization subcontract any of the securities lending services? If yes, provide details.
     12. Disclose how many clients or aggregate asset size you can effectively handle and discuss why. Does your securities lending program have any capacity limitations?
     13. Provide client turnover information for US-based global and domestic securities lending clients for each of the last three calendar years and nine months ending September 30, 2014.
     14. For each client gained, provide the following information:
* Name of client gained; and
* Date hired.
  + 1. For each client lost, provide the following information:
* Name of client lost;
* Date hired;
* Date terminated;
* Lending base (in $ million); and
* Indicate whether DOI may contact the client.
  + 1. Include at least three, and up to five, references for large public, corporate, or sovereign wealth funds with similar lending pools to DOI.
    2. Provide a detailed transition timetable including novation strategies.
    3. Provide a summary of any and all problems that the bidder anticipates during the transition or term of the contract. For each problem identified, the bidder should provide its proposed solution.
    4. Submit a copy of your standard securities lending contract. Note that the provisions of the agreement cannot be inconsistent with the provisions of the New Jersey Standard Terms & Conditions and/or this RFP. If your standard agreement must be modified to conform to the New Jersey Standard Terms & Conditions and/or the requirements of this RFP, please indicate that the proposed changes have been reviewed and approved by your legal representative.
  1. **SECURITIES LENDING CAPABILITIES**
     1. Provide a brief narrative (not exceeding 3 pages) outlining your technical approach and indicating your ability to comply with the requirements of Section 3.16. Include any differentiating factors.
     2. How do you manage the coordination of trade settlements, corporate actions, dividend collection, etc. with the part of your organization providing custody services? Do you provide guarantees?
     3. Do you employ a “fees for hold” arrangement within your securities lending program? Please describe.
     4. What policies and procedures do your traders follow in negotiation of rebate rates?
     5. What countries are involved in the lending program? What is the estimated spread to Federal Funds rate in each country by security type?
     6. Over each of the last three calendar years, and for the nine months ending September 30, 2014, what was the average percent of eligible securities on loan and what was the average spread earned for each of the following asset types:
* Domestic Equities
* Government Bonds
* Corporate Bonds
* International Equities
  1. **SECURITIES LENDING RISK MANAGEMENT** 
     1. How do you manage the following risks?
        + Borrower/Counterparty Risk and Default Risk
        + Collateral Reinvestment Risk
        + Interest Rate Risk
        + Credit Spread Risk
        + Trade Settlement Risk
        + Operational Negligence
        + Sovereign Risk
        + Currency Fluctuation Risk
     2. Describe how your firm manages risk related to indemnifications on a program-wide basis.
     3. Have you experienced any losses due to operational negligence, collateral reinvestment and/or security specific reinvestments, and/or borrower default since the inception of your securities lending program? Describe. What was the recourse provided to clients and the level of dialogue to explain (resolve) the issues?
     4. Have there been any other instances over the past five years where you incurred negative yields?
     5. Do you have a risk and compliance manager monitoring the securities lending program? How does the manager accomplish his/her mandate objectively?
     6. How do you conduct asset/liability (gap) analysis, specifically the duration of the loan and cash investments? On what frequency?
     7. Do you stress test your securities lending program? Describe the methodology and procedures utilized for stress testing, including the frequency of testing.
     8. Specify the weighted average duration mismatch between lending and reinvesting for the following quarters. (Provide separate answers for each lending pool or separate accounts that you offer in your program.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **1st Qtr** | **2nd Qtr** | **3rd Qtr** | **4th Qtr** |
| 2009 |  |  |  |  |
| 2010 |  |  |  |  |
| 2011 |  |  |  |  |
| 2012 |  |  |  |  |
| 2013 |  |  |  |  |
| 2014 |  |  |  |  |

* + 1. Describe your management of asset/liability duration mismatch. How is it controlled? Have any clients suffered losses due to this mismatch? Have any clients requested refund of losses suffered because of mismatch?
    2. Describe your management of quality mismatch. How is it controlled? Have any clients suffered losses due to this mismatch? Have any clients requested refund of losses suffered because of mismatch?
    3. Can your program ensure the protection of voting rights by consistently recalling the stock prior to proxy record date? If so, describe the process. Describe the firm’s ability to report on companies likely to file proxies in the upcoming month based on historic record dates, and the firm’s ability to provide updates to DOI on the number of shares it has on loan.
    4. What additional safeguards are offered by the firm to its lending participants?
  1. **SECURITIES LENDING COLLATERALIZATION**
     1. What types of collateral are you willing to accept? What is the percentage breakdown of the collateral types you hold on average?
     2. What investment vehicles have you historically used for cash collateral investment? Summarize monthly performance for the last three calendar years through December 2013, and the nine months ending September 2014, of each vehicle, as well as the investment philosophy, investment guidelines and performance objectives for each vehicle.
     3. What fees are charged for investment management/custody of collateral investments?
     4. With respect to collateralization, provide the following information:

Submit the collateralization level proposed for the DOI (cash and cash equivalent collateral) program by lendable asset type (e.g. US dollar denominated equities, international equities, U.S. Treasuries, etc.).

* What value (market value only, including accrued interest, etc.) is the basis for this percentage?
* Indicate whether the daily mark-to-market collateralization differs from the initial collateralization level.
* When is additional collateral requested (same day, next day)?
  + 1. How is collateral reinvestment management handled and what is the role and function of the credit analysis team?
    2. How far below the required collateralization percentage must the collateral dip before a margin call is made?
    3. Is the mark to market process done by loan or in aggregate? Please explain.
  1. **SECURITIES LENDING BORROWER CONSIDERATION**
     1. Describe your credit analysis process for approving and monitoring the borrowers who participate in your securities lending program (both international and domestic). Be sure to describe who is responsible for the credit review of borrowers and how often it is done. Have you ever dismissed or penalized a borrower within your program? Please describe.
     2. Furnish a copy of your standard Borrower’s Agreement(s) specific to Securities Lending done on an agency basis.
     3. How do you risk adjust credit limits based on securities borrowed?
     4. Provide a list of your current borrowers and their credit rating. Identify the top ten borrowers and the percentage these borrowers represent of the total program. Can a client restrict a program to specific borrowers?

* + 1. Identify the advantages the firm has in dealing with broker/dealers and how this benefits your clients.
    2. Do you proactively visit borrowers at least once a year? Kindly state when was the last time you visited the top ten borrowers within your program and enumerate accordingly.
    3. Does your organization have compensation arrangements with borrowers beyond the normal form of negotiating rebates/fees? If so, please explain.
  1. **SECURITIES LENDING INDEMNIFICATION**
     1. Describe your full operational and borrower default indemnification offerings. Be sure to address the following:
* Borrower files for bankruptcy for whatever reason.
* Failure to recall securities before settlement date.
* Failure to secure additional collateral and margin requirements.
* Failure to receive dividends, distributions, and all economic benefits of ownership.
* Immediate use of Non-Cash Collateral in lieu of Borrower Bankruptcy.
* The timeframe for declaring borrower default upon a triggering event and the timeframe for reimbursement to DOI after such event.
  + 1. Do you provide additional types of indemnification beyond broker default (i.e., collateral, negligence, trade settlement, etc.)? Does your proposal include the provision of additional levels of indemnification? If so, describe in detail.
    2. If your entity is willing to provide full or partial indemnification for collateral reinvestment risk, what would be the parameters of your bid proposal for securities lending splits and assets to lend? What are the specific limitations of your indemnification? Include a specific discussion on how your firm determines when the default has occurred, when the indemnification is effective and on what valuation date the amount of default is determined.
  1. **SECURITIES LENDING VOLUME** 
     1. What was the daily average dollar volume of securities loans outstanding for the 12 months period ending on December 31 for each of the last three years? Specify in US$ millions.

As of September 30, 2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset Classes** | **Daily Avg. Lendable Base** | **Daily Avg. Out on Loan** | **Avg. Rebate Rate/Fees (bp)** | **Avg. Daily Spreads Net of Rebate (bp)** |
| US Large Cap Equities |  |  |  |  |
| US Mid & Small Cap Equities |  |  |  |  |
| US Corporate Bonds |  |  |  |  |
| High Yield |  |  |  |  |
| REITS |  |  |  |  |
| US Govt Bonds |  |  |  |  |
| TIPS |  |  |  |  |
| Non-US Equity |  |  |  |  |
| Non-US Fixed Income |  |  |  |  |

As of December 31, 2013

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset Classes** | **Daily Avg. Lendable Base** | **Daily Avg. Out on Loan** | **Avg. Rebate Rate/Fees (bp)** | **Avg. Daily Spreads Net of Rebate (bp)** |
| US Large Cap Equities |  |  |  |  |
| US Mid & Small Cap Equities |  |  |  |  |
| US Corporate Bonds |  |  |  |  |
| High Yield |  |  |  |  |
| REITS |  |  |  |  |
| US Govt Bonds |  |  |  |  |
| TIPS |  |  |  |  |
| Non-US Equity |  |  |  |  |
| Non-US Fixed Income |  |  |  |  |

As of December 31, 2012

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset Classes** | **Daily Avg. Lendable Base** | **Daily Avg. Out on Loan** | **Avg. Rebate Rate/Fees (bp)** | **Avg. Daily Spreads Net of Rebate (bp)** |
| US Large Cap Equities |  |  |  |  |
| US Mid & Small Cap Equities |  |  |  |  |
| US Corporate Bonds |  |  |  |  |
| High Yield |  |  |  |  |
| REITS |  |  |  |  |
| US Govt Bonds |  |  |  |  |
| TIPS |  |  |  |  |
| Non-US Equity |  |  |  |  |
| Non-US Fixed Income |  |  |  |  |

As of December 31, 2011

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset Classes** | **Daily Avg. Lendable Base** | **Daily Avg. Out on Loan** | **Avg. Rebate Rate/Fees (bp)** | **Avg. Daily Spreads Net of Rebate (bp)** |
| US Large Cap Equities |  |  |  |  |
| US Mid & Small Cap Equities |  |  |  |  |
| US Corporate Bonds |  |  |  |  |
| High Yield |  |  |  |  |
| REITS |  |  |  |  |
| US Govt Bonds |  |  |  |  |
| TIPS |  |  |  |  |
| Non-US Equity |  |  |  |  |
| Non-US Fixed Income |  |  |  |  |

* 1. **SECURITIES LENDING PROCESS AND LIMITS**
     1. Do you have an internal limit on how much of a client’s portfolio of lendable assets can be lent on any given day? Describe your policy.
     2. Related to the question above, do you also have an internal limit on how much of a client’s lendable assets can be lent to a single borrower on any given day? What is the exposure limit? Is it possible that a single client can be exposed to a single borrower at any given time?
     3. Do you have a lending limit policy for small cap securities? Please describe how your organization mitigates trade fails or other issues associated with the recall of small cap securities.
     4. What types of limits or restrictions can be automated by your lending system (e.g. by security, by market cap, by short interest percent)?
     5. Describe your queuing or loan allocation system. Do you provide equal opportunity to all participating clients to lend their securities? Does the firm intervene in the allocation or queuing process, and if so, under what circumstances? Does the firm utilize entitlement credits? If so, describe specifically how and on what basis those credits are assigned. Is the maintenance of the queue audited regularly? Provide details on how DOI would rank within your current system.
     6. Are you able to monitor for “borrowing to manipulate a proxy” within your program? Please describe for both domestic and international markets.
     7. How many lending pools do you have? Describe the lending pools (e.g. collateral type, plan sponsor type, asset, calls, etc.)and how client assets are assigned to the lending pools.
  2. **SECURITIES LENDING REPORTING**
     1. Provide an overview and samples of the types of reports that are available for securities lending and indicate whether the reports are available online via the internet. Are the reports updated daily? How much report format flexibility is available?
     2. Are you able to provide internet access to information about your securities lending program, including loans outstanding, shares on loan, days out on loan, term or open trades, borrowers for each block of securities lent, collateral portfolio details, collateralization levels, earnings, and other daily and monthly reporting requirements? If yes, provide samples.
     3. Does the firm provide an attribution analysis for its securities lending program? If so, please describe.
     4. Please describe the audit trail process provided to your securities lending clients.
     5. How do you support GASB reporting requirements?
  3. **SECURITIES LENDING SYSTEMS AND TECHNOLOGY**
     1. Do you have an Internet based auction lending capability? If so, describe, including inception, extent of applications, competitive bidding process, etc.
     2. What system(s) do you utilize for lending securities and collateral reinvestment? Are the systems proprietary or third party? What is distinct about your current system? Is the system only for lending? Is the system used for reinvesting?
     3. Describe your business continuity and disaster recovery plans. What will be the recovery times and service level for critical securities lending services in the case of a major disaster?
  4. **SECURITIES LENDING REVENUE PROPOSAL**
     1. Provide an estimate of your program’s securities lending program revenue using assets as shown in Appendix 2. Provide the projections by major asset class.

Revenue Projections (based on portfolio holdings information provided and cash collateral investment guidelines provided in Appendix 3):

Estimated daily average lendable base: $\_\_\_\_\_\_\_\_\_\_\_\_

Estimated daily average securities on loan (A) $\_\_\_\_\_\_\_\_\_\_\_\_

(Utilization Rate = \_\_\_\_\_\_\_ %)

Projected average rebate rate (at current market levels): \_\_\_\_\_\_\_\_\_\_%

Projected reinvestment rate (at current market levels): \_\_\_\_\_\_\_\_\_\_%

Projected yield spread on securities lent (B): \_\_\_\_\_\_\_\_\_\_%

Percentage of lendable income (Split %) (C) \_\_\_\_\_\_\_\_\_\_%

Annual Revenue Estimate: (A) x (B) x (C) x 365: \_\_\_\_\_\_\_\_\_\_%

Assumption/Questions:

* + 1. List significant assumptions or comments that impact your lending estimate.
    2. Please explain the methodology used above for calculating and splitting securities lending revenue.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Pension Fund | SACT | Trustees | Lottery Fund | Cultural Trust |
| July 1, 2015 to June 30, 2016 |  |  |  |  |  |
| July 1, 2016 to June 30, 2017 |  |  |  |  |  |
| July 1, 2017 to June 30, 2018 |  |  |  |  |  |
| July 1, 2018 to June 30, 2019 |  |  |  |  |  |
| July 1, 2019 to June 30, 2020 |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Optional two one-year period extensions | | |  |  |  |
| July 1, 2020 to June 30, 2021 |  |  |  |  |  |
| July 1, 2021 to June 30, 2022 |  |  |  |  |  |