



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

KIM GUADAGNO
Lt. Governor

TO: Prospective Bidders

DATE: December 12, 2014

RE: Amendment #2
Questions & Answers
Custodial Services for the State of New Jersey Pension
Funds and Other Funds Request for Proposals

Bidders note that proposals are due on December 23, 2014 and must arrive at DOI's office by 3:00 PM Eastern. Proposals received after this date and time shall not be accepted. Bidders utilizing the United States Postal Service (USPS) should allow for additional shipping time as the USPS does not deliver to DOI's office directly. Overnight couriers deliver to DOI's office directly.

Mailing Address utilizing USPS:

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Division of Investment
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Trenton, NJ 08608**

Q 1.

Section: General

Page: 1

Question: Please explain if the proposal has been issued due to a statutory requirement that requires NJDOI to receive competitive fee proposals every three to five years? Conversely, is the primary reason you are issuing the RFP due to deficient product capabilities or poor service from your current provider? If so, please elaborate on areas of concern.

Answer: The RFP has been issued due to an expiring contract.

Q 2.

Section: General

Page: 1

Question: Would the custody provider be required to post collateral to secure any cash balance held under the custody relationship and/or be subject to any qualified public depository rules (or any similar rules) in effect in the State of New Jersey?

Answer: No.

Q 3.

Section: General

Page: 1

Question: Does your current provider post collateral to secure any cash balances?

Answer: No.

Q 4.

Section: General

Page: 1

Question: Does any of the Funds include proceeds of a Municipal Security offering, specifically, a Municipal Bond or Pension Obligation Bond? If yes, when were the bond proceeds deposited into the Fund? If it is currently known and public information, is the State of NJ Department of Treasury planning to issue such a bond for the purpose of funding the Funds?

Answer: DOI does not have information as to the source of moneys deposited into the Funds, and, therefore, cannot answer the questions regarding the source of deposits (bond proceeds or non-bond proceeds) or the timing of deposits using particular sources. DOI is unaware of any present plans by the State Treasurer to issue bonds for the purpose of funding any of the Funds.

Q 6.

Section: 1.1 Purpose and Intent

Page: 5

Question: Is DOI willing to accept proposals from third party/non-custodial providers for the securities lending portion of this contract?

Answer: No.

Q 7.

Section: 1.2 Background

Page: 7

Question: Regarding the PFRS mortgage loan program, please explain the role of the custodian regarding this program. Also, how many mortgages are held and in how many accounts? What is the source for valuation, performance information etc.?

Answer: New Jersey Housing and Mortgage Finance Agency (NJHMFA) manages 4000+ underlying individual mortgages. DOI does not book each mortgage as a line item security. DOI maintains the overall value of the total mortgage portfolio as one line item. On a monthly basis, NJHMFA provides DOI with all purchases, sale, interest and principal payments transactions related to the mortgage balance.

Q 8.

Section: 1.2 Background

Page: 7

Question: Please provide a list of all sub-accounts within the Common Pension Fund D and the Common Pension Fund E including whether or not they hold individual securities or are invested in a line item/commingled fund and the total market value by country. Also, the New Jersey DOI website addresses Common Fund A and B. Please describe these funds in detail and explain the responsibility of the custodian regarding these Funds. Please provide details on those sub-accounts and the corresponding market values by country and trade volumes.

Answer: Common Pension Funds A & B were merged into Common Pension Fund D on April 1, 2014. Common Pension Fund D global publicly traded securities (equity, fixed income, ETF, traded options and futures). Common Pension Fund hold all alternative investments non-publicly traded securities (private equity, real estate, hedge funds, real asset).

Q 9.

Section: 1.2 Background

Page: 7

Question: Under the description of the Common Funds it provides a total trade volume. Please provide a breakdown of trades for all active separately managed portfolios reflecting buys and sales in the various countries as well as the number of derivative transactions based on options, futures, swaps etc. Also, please provide annual wire volumes.

Answer: Refer to Appendix 1.

Q 10.

Section: 1.3.1 Minimum Requirements

Page: 8

Question: Requests a physical presence in the State of NJ in the form of a principal office or branch office and must employ New Jersey residents. Are you willing to waive this requirement? Would you be willing to affirmatively tell us that an office that is not a bank principal office or branch would meet the requirement as set out in the RFP and under New Jersey law?

Answer: This requirement is codified in State law (N.J.S.A. 52:18A-8.1) and cannot be waived. Bidders should seek legal counsel with respect to interpretation of N.J.S.A. 52:18A-8.1.

Q 11.

Section: 3.0 Scope of Work

Page: 16

Question: Will DOI entertain qualifications, exceptions and modifications to the Scope of Work needed in order to be consistent with our established service delivery model?

Answer: No material qualifications, exceptions or modifications to the Scope of Work will be accepted. If a bidder is unable to comply with provisions of the Scope of Work, it should identify those areas in its response to. Section 5.8 Potential Problems.

Q 12.

Section: 3.1.11 Custody and Trade Settlement

Page: 19

Question: Please describe what is required to “provide regulatory, audit overlay and administration support for global markets”

Answer: DOI expects the Contractor to have knowledge of all legal and regulatory requirements for trading in global markets, and to provide information and assist DOI with respect to complying with such requirements.

Q 13.

Section: 3.1.6 Custody and Trade Settlement

Page: 19

Question: This statement addresses the safeguarding of the personal information of Fund participants. Please clarify if the bidder is to include benefit disbursement services to participant and if not, what other personal information does the custodian have access to?

Answer: The bidder will not have access to benefit disbursement information. The participants for each of the funds included in the RFP are state entities (e.g. pension plans).

Q 14.

Section: 3.1.19 Custody and Trade Settlement

Page: 20

Question: Does INDATA iPM produce SWIFT Messages and if not, what format is being provided to the current custodian?

Answer: The Division does not utilize SWIFT. An electronic trade file is extracted from INDATA iPM and transmitted to the custodian, which includes all relevant information required to record the trade.

Q 15.

Section: 3.2.11 Accounting and Auditing

Page: 22

Question: Please clarify/define what “final adjusted values” means for June 30 valuations.

Answer: The value of the investment as reported by the Fund manager for June 30, which is received on a lag by DOI.

Q 5.

Section: 3.3.5 Reporting

Page: 26

Question: What is the expectation of the deliverable to NJ DOI regarding the reporting to the Federal Reserve as noted in the “Other Reporting” section? Is it to provide NJ DOI information in order to complete the forms/filings – or is the expectations are that the custody provider complete the forms and file?

Answer: For certain reporting requirements (e.g. Report of Ownership of Foreign Securities, including selected Money Market Instruments (SHCA)) the custodian will be expected to provide supporting data (e.g. holdings report with asset classification, country of risk, country of incorporation/domicile) to DOI who will file the report. Where the custodian has direct regulatory reporting requirements, DOI expects that the custodian will be aware of and comply with all such requirements.

Q 16.

Section: 3.3.5 Reporting

Page: 26

Question: Please provide a list of all required monthly, annual, biannual, and quinquennial reporting to the Federal Reserve that the custodian supports.

Answer: DOI does maintain a comprehensive list. DOI expects the custodian to be knowledgeable of Federal Reserve Reporting Requirements that relate directly to custodians (e.g. TIC Form SHL).

Q 17.

Section: 3.4.1 Alternative Investment Platform

Page: 26

Question: Please explain in further detail who is responsible for processing the capital calls for the alternative investments. Does the custodian authorize the capital calls on your behalf or do you process the capital call through an automated system?

Answer: DOI staff currently authorize capital calls through an electronic platform provided by the custodian. There are two levels of authorization required.

Q 18.

Section: 3.4.9 Alternative Investment Platform

Page: 27

Question: Contractor shall maintain an investment dashboard which will include, but not be limited to, cash flow and return data. The dashboard must be customizable upon request. Please provide a sample of the dashboard and any information regarding the data points/reporting frequency required for the dashboard.

Answer: This dashboard is to be provided by the contractor. DOI cannot provide a sample of the current contractor's system. The required data points, at minimum, include: market value, year-to-date gain/loss, 1 year gain/loss, inception gain/loss, since inception and varying intervals of rate of return, contributions, distributions, multiple, commitment, inception to date multiple.

Q 19.

Section: 3.5.1 Cash Management

Page: 27

Question: Please provide an estimate of the average cash balance held within the contractors/custodians STIF account.

Answer: Average is \$38 million.

Q 20.

Section: 3.8.1 Proxy Processing

Page: 29

Question: Upon commencement of the contract and each time additional funds or subaccounts are added, Contractor shall work directly with DOI's proxy voting agent (currently ISS), in a timely manner, to provide letters of authorization and all other relevant required information necessary so that accounts can be set up in a timely manner and proxy voting is enabled on time. Please explain if NJ will provide a letter of authorization to Contractor/custodian to direct proxy ballots to your voting agent and to accept voting instructions back. Also, who is party to the contract with DOI's proxy voting agent?

Answer: DOI provides a letter of authorization to the contractor to direct all ballots meeting notices, and other proxy materials to ISS. and authorizes ISS to contact the contractor directly regarding account set up and in the event that proxies for any of the accounts have not been received.

Q 21.

Section: 3.9.2 Technology and Systems Requirements

Page: 31

Question: Please provide the file format for the data warehouse. Also, provide the name of the data warehouse used today.

Answer: A data warehouse has not yet been identified by DOI.

Q 22.

Section: 3.9.4 Technology and Systems Requirements

Page: 31

Question: Under requirement 3.9.4.1 the document refers to providing complete histories of investment activity of all Fund holdings maintained throughout the term of the custodial relationship versus requirement 3.9.4.6 requests that we retain computer records for all audited investment transactions and daily positions for 7 years. Please clarify if we are required to retain unlimited data or only 7 years of data on-line.

Answer: Section 3.9.4.1 requires on-line accessibility during the term of the contract. Section 3.9.4.6 requires historical records to be available for 7 years to meet record retention requirements, which will extend beyond the contract period.

Q 23.

Section: 3.10.1 Performance Measurement and Analytics

Page: 33

Question: Contractor must have the ability to interface and/or accept a feed from other contractors engaged by DOI for cash flow and transaction information. Please state what the source(s) of the data would be? How many? What would be the frequency of the data feeds? What are the ultimate deliverables based on this data?

Answer: Currently, the CMF custodian provides a daily feed of cash flow information to the Pension Fund custodian. On a monthly basis, DOI provides three data points (new mortgages issued, principal and interest payments) to the Pension Fund custodian with respect to the Police & Fire mortgages; this is aggregate information and not on a mortgage by mortgage basis.

Q 24.

Section: 3.10.2 Performance Measurement and Analytics

Page: 33

Question: Contractor's system shall have the ability to calculate performance at the security level and/or asset class and sub-portfolio level in accordance with the annual allocation plan approved by the SIC. Total Pension Plan performance shall be calculated including and excluding Police & Fire Mortgages. 1)What is the source of the data for the Police & Fire Mortgages? 2)How is this currently included in reporting? 3)What level of performance is currently provided to NJ DOI from the custodian?

Answer: 1) On a monthly basis, NJHMFA provides DOI with all purchases, sale, interest and principal payments transactions related to the mortgage balance.
2) Currently, this is included as a line item on reports.
3) Sub-portfolio level.

Q 25.

Section: 3.10.3 Performance Measurement and Analytics

Page: 33

Question: In accordance with GASB 67, Contractor shall calculate an annual money-weighted rate of return on total Pension Fund assets calculated as the internal rate of return on investments, net of pension plan investment expense. Inputs to the internal rate of return calculation should be determined at least monthly. Do you require custodian to show prior year IRR calculations? If so, would the prior custodian provide values & cash flows for each plan?

Answer: Fiscal 2014 was calculated by the current custodian. DOI would expect the bidder to calculate prospective periods.

Q 26.

Section: 3.10.4 Performance Measurement and Analytics

Page: 33

Question: Contractor shall provide daily and monthly performance reports detailing market performance, portfolio performance, and any level of detail or any aggregate deemed necessary by DOI. These reports are to include current as well as historical data. 1)What level of historical data would you look to include? 2)What level of performance returns are you currently receiving from the custodian? 3)Do you receive daily security level performance and, if so, for which accounts?

Answer: 1) Subportfolio
2) Subportfolio
3) No.

Q 27.

Section: 3.10.4i Performance Measurement and Analytics

Page: 33

Question: Please provide a sample format for monthly audited reports.

Answer: DOI does not require a specific format. Contractor should provide samples of relevant reports.

Q 28.

Section: 3.11.2 Compliance Monitoring and Reporting

Page: 35

Question: Contractor should have an online compliance system that provides DOI staff with the ability to view and access up-to-date data including historical test data. The system should include pass, fail and warning notifications, histories and a set of core compliance reports including the reason for any breaches. The online system should provide easy access to DOI compliance rule matrixes, compliance results, and historical breach reports. Please state how much historical information is required? Also, please provide a sample DOI compliance rule matrixes.

Answer: The historical test data refers to all tests results for the term of the contract. The rule matrix is developed by the contractor to test the permissible investments and limitations reflected in the State Investment Council Regulations (NJAC 17:16).

Q 29.

Section: 3.11.3 Compliance Monitoring and Reporting

Page: 35

Question: Contractor's compliance system should incorporate fail management capabilities. Those will include the ability to assign severities, breaches, and approvals for each alert. DOI should be able to view the test breaches, assign breaches to individuals for follow-up, and record commentary or research results online. Please state how much historical note/commentary information is required? Please provide examples of the commentary required and whether or not these are client directed or written by the contractor.

Answer: The commentary would be written by DOI staff and would reflect a brief summary of the research result. A reasonable field size should be provided.

Q 30.

Section: 3.11.5 Compliance Monitoring and Reporting

Page: 35

Question: Contractor shall provide a summary of reporting threshold limits for all global markets (including SEC reporting thresholds). Contractor shall provide updates to global regulations in a timely manner that will enable DOI compliance in all markets and provide links to regulatory authorities and required forms. Please provide an example of summary reporting threshold limits for all global markets (including SEC reporting thresholds).

Answer: The requirement, as stated in Section 3.11.5, is for the contractor to be aware of and provide the list of regulatory reporting thresholds in all global markets.

Q 31.

Section: 3.12.1 Transition

Page: 37

Question: All interfaces, including, but not limited to, interfaces with DOI, external investment advisers, pricing services, Bloomberg, third-party recordkeepers and service providers, benchmark providers and others must be ready and adequately tested prior to conversion, but in any event, no later than April 30, 2015, or an acceptable alternative provided as mutually agreed. Please provide sample file layouts for all interfaces required.

Answer: DOI would expect the contractor to work with each of its third party providers to meet their respective defined requirements on any required interfaces.

Q 32.

Section: 3.12.1 Transition

Page: 37

Question: Contractor shall set-up accounts per DOI provided account schematic... Please provide the current account schematics for review.

Answer: The account schematic will be based upon the capabilities of the contractor's system.

Q 33.

Section: 3.14.2 Personnel

Page: 38

Question: Does the DOI require a dedicated on-site administrator in Trenton at DOI's premises for a Securities Lending Third Party Agent?

Answer: DOI will not award a contract to a third party securities lending agent under this contract. DOI expects that the custodial on-site administrator would interface with the securities lending organization of the bidder on any issues.

Q 34.

Section: 3.16 Securities Lending Services

Page: 39

Question: Do you have any impaired legacy assets? If so, please provide specific details on each holding (e.g. amortized cost, unrealized loss, etc.) and do you plan to reimburse any collateral deficiency with your current provider before converting or have a remediation plan in place and intend on transferring assets in-kind (e.g. allocation earnings to reduce any collateral deficiencies)?”

Answer: There are currently no impaired assets in the collateral pool.

Q 35.

Section: 3.16.7 Securities Lending Services

Page: 40

Question: Please define "sufficient net equity" with respect to backing the indemnification.

Answer: This will be evaluated by the Selection Committee and the Director upon review of the bids.

Q 36.

Section: 3.18.5 Optional Risk System

Page: 43

Question: Risk system should provide Public and Custom Index comparisons. Please clarify what comparisons DOI is looking for.

Answer: Risk system should allow for of the comparison of various DOI portfolios to Public and Custom indices

Q 37.

Section: 3.18.5.4 Optional Risk System

Page: 43

Question: Ability to optimize and offer a methodology to adjust for estimation bias of tracking error. Please provide additional information on what you are seeking.

Answer: DOI is looking for a system that can provide portfolio risk analysis. Bidder should provide details on what its system's capabilities include.

Q 38.

Section: 3.18.5.9 Optional Risk System

Page: 43

Question: Please provide additional details on what you are seeking when you say "Capital Structure Analysis."

Answer: Ability to evaluate the Fund's exposure to various parts of a company's capital structure.

Q 39.

Section: 5.9 Technical Proposal - Custody and Trade Settlement

Page: 58

Question: Please provide a detailed holdings file in excel format including the following fields: Account Name, Account Number, Security Description, Security Type, Cusip Number, ISIN or Sedol, Market Value, and Country of Settlement.

Answer: Appendix 2 of the RFP is a detailed holdings of the Pension Fund. Refer to Appendix 5 for all other funds.

Q 40.

Section: 5.9 Technical Proposal - Custody and Trade Settlement

Page: 58

Question: Please provide annual transaction volumes by country, with transaction type (buy, sells, maturities, redemptions, income, etc.) for all US and Non-US activity.

Answer: Refer to Appendices 1 and 2.

Q 41.

Section: 5.9 Technical Proposal - Custody and Trade Settlement

Page: 58

Question: Are derivatives traded in any of the investment manager accounts? If so, what is the volume of trades and number of positions by product type?

Answer: DOI does not have investment managers. The emerging market investment advisers may execute FX forwards from time to time but historically, there has not been high volume.

Q 42.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: What are the type of derivatives traded and if possible the associated transactional volumes or notional balances?

Answer: Please refer to NJAC 17:16 for permissible investments. Investment in derivatives can fluctuate and historical transactions are not necessarily indicative of future volume.

Q 43.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: What is the breakdown between cleared and uncleared?

Answer: DOI does not currently transact OTC derivatives.

Q 44.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: What is the regional breakdown between US, EMEA, APAC?

Answer: DOI currently transacts all derivatives through US broker dealers.

Q 45.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: How many counterparties and types of collateral agreements are currently in place?

Answer: DOI currently clears all derivative transactions through one counterparty. There are two cash margin accounts currently open, which are held by Pension Fund subaccount by the counterparty. Underlying shares to option trades are pledged through the custodian. DOI reserves the right to increase the number of clearing counterparties and accounts in the future.

Q 46.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: Do you need segregated collateral accounts for derivative investments?

Answer: DOI currently clears all derivative transactions through one counterparty. There are two cash margin accounts currently open, which are held by Pension Fund subaccount by the counterparty. Underlying shares to option trades are pledged through the custodian. DOI reserves the right to increase the number of clearing counterparties and accounts in the future.

Q 47.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: Please describe the type of collateral accounts e.g. Tri party?

Answer: DOI currently clears all derivative transactions through one counterparty. There are two cash margin accounts currently open, which are held by Pension Fund subaccount by the counterparty. Underlying shares to option trades are pledged through the custodian. DOI reserves the right to increase the number of clearing counterparties and accounts in the future.

Q 48.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: Please confirm type of collateral, cash or non-cash?

Answer: DOI pledges underlying securities related to options and has an existing margin agreement with one broker dealer.

Q 49.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: Do you require the contractor to be a party to any collateral control agreement? If so, please provide the number of brokers needing access to the collateral accounts?

Answer: The custodian is not currently a party to DOI's Derivatives and Margin Agreements.

Q 50.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: Do you require the contractor to monitor the collateral to determine eligibility based on guidelines provided?

Answer: DOI expects that the contractor's derivative servicing team would ensure that required collateral is pledged in accordance with regulatory requirements and deadlines.

Q 51.

Section: 5.1 Technical Proposal - Derivative Servicing

Page: 59

Question: Do you require a collateral management system?

Answer: DOI expects that the contractor's derivative servicing team would ensure that required collateral is pledged in accordance with regulatory requirements and deadlines.

Q 52.

Section: 5.12 Technical Proposal - Accounting and Auditing

Page: 60

Question: Please clarify the frequency of valuation required for investment accounting (monthly, daily, etc..)

Answer: Please refer to the requirements as set forth in Section 3.2 of the RFP.

Q 53.

Section: 5.12 Technical Proposal - Accounting and Auditing

Page: 60

Question: Please provide an account schematic detailing the number of plans and account type (i.e. separately managed or commingled / line item).

Answer: Section 1.2 of the RFP details the Funds for which all accounting and reporting requirements apply. Section 3.0 sets forth the asset allocation categories for the Pension Fund. Bidder should ensure that their systems have the ability to meet these requirements. DOI reserves the right to approve the final account schematic proposed by the bidder.

Q 54.

Section: 5.12 Technical Proposal - Accounting and Auditing

Page: 60

Question: What is the name of your current general ledger system?

Answer: DOI does not maintain an independent general ledger system. Per Section 3.2.1 of the RFP, the custodian will serve as the official books and records.

Q 55.

Section: 5.12 Technical Proposal - Accounting and Auditing

Page: 60

Question: Do you currently have an interface with your current provider to your general ledger system? If so, what is the frequency of the general interface from the custodian? Is the information at the summary or transaction level? Please describe in detail, your daily/monthly/annual reporting needs with any specific requirements.

Answer: DOI does not maintain an independent general ledger system. Per Section 3.2.1 of the RFP, the custodian will serve as the official books and records.

Q 56.

Section: 5.12 Technical Proposal - Accounting and Auditing

Page: 60

Question: Do you require any plan sub accounting?

Answer: As set forth in Section 3.2 of the RFP, contractor shall serve as official book of record for each of the separate funds identified in Section 1.2. For the seven pension plans identified in Section 1.2, the contractor must meet the requirements as set forth in Section 3.2, which includes, but is not limited to, providing a trial balance for each of the pension plans, listing of unit holdings in each of the Common Pension Funds, contributions, withdrawals, and gain/loss upon withdrawal.

Q 57.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: What is the talk asset value in USD of your alternative asset portfolio? And, how often do you invest?

Answer: The Monthly Director's Report, available at www.state.nj.us/doinvest, contains a detailed summary of the alternative investments at the end of each month, which includes the value as well as the original investment date. Past investment pacing is not necessarily indicative of future pacing.

Q 58.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: What is the number of underlying investors?

Answer: The alternatives portfolio has approximately 200 investments.

Q 59.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: What are the assets under custody for the applicable fund of funds?

Answer: The Monthly Director's Report, available at www.state.nj.us/doinvest, contains a detailed summary of the alternative investments at the end of each month.

Q 60.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: What is the required valuation frequency? (daily, same day valuation, monthly).

Answer: Please refer to Section 3.2.11 of the RFP.

Q 61.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: Do you have any limited partnerships and if so, how are these LPs held today (i.e. individual accounts or grouped accounts)?

Answer: The Monthly Director's Report, available at www.state.nj.us/doinvest, contains a detailed summary of the alternative investments at the end of each month.

Q 62.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: Please provide the number alternative investment lines by asset class (i.e. X lines in Private Equity, Y lines in Hedge Funds, Z lines in Real Estate) and specify fund or direct investment.

What is the dollar size AUA of this portion of your portfolio?

Answer: The Monthly Director's Report, available at www.state.nj.us/doinvest, contains a detailed summary of the alternative investments at the end of each month.

Q 63.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: What alternative administration services do you currently receive from your provider(s) (current custodian or outside provider) or perform in-house?

Answer: Services include cash flow management and analysis, performance reporting, and portfolio company analysis.

Q 64.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: Do you require performance reporting at the fund-level? If so, what is the average vintage year for your alternative investments? And what type of benchmarking do you use today?

Answer: Performance reporting at the fund level is required. DOI does not maintain an average vintage year. The program began in 2005 and the average commitments per year range between \$2 and \$6 billion. DOI currently uses HFRI, Cambridge, DJVBS, and NCREIF benchmarks.

Q 65.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: Do you require portfolio company drilldown reporting?

Answer: Please refer to Section 3.4.7 of the RFP.

Q 66.

Section: 5.14 Technical Proposal - Alternative Investment Platform

Page: 64

Question: What is your transaction volume (quarterly or annually) relating to capital calls and distributions for alternative investments?

Answer: On average, between 500 and 600 cash flows per quarter. However, historical volume is not necessarily indicative of future volume.

Q 67.

Section: 5.15 Technical Proposal -Cash Management

Page: 65

Question: Are you in an Earnings Credit program currently which uses cash balances to offset fees?

Answer: No.

Q 68.

Section: 5.15 Technical Proposal -Cash Management

Page: 65

Question: Would you consider an Earnings Credit program?

Answer: No.

Q 69.

Section: 5.15 Technical Proposal -Cash Management

Page: 65

Question: Do you have limit restrictions on deposits with a counterparty, and what would be that limitation?

Answer: DOI only maintains cash in STIFs on an exception basis. Cash is generally invested in the State of New Jersey Cash Management Fund.

Q 70.

Section: 5.15 Technical Proposal -Cash Management

Page: 65

Question: What is the average daily balance of cash available for sweeps of at least 6 months data (by currency)?

Answer: DOI only maintains cash in STIFs on an exception basis. Cash is generally invested in the State of New Jersey Cash Management Fund.

Q 71.

Section: 5.15 Technical Proposal -Cash Management

Page: 65

Question: What sweeps/STIFs are you invested in currently?

Answer: DOI only maintains cash in STIFs on an exception basis. Cash is generally invested in the State of New Jersey Cash Management Fund.

Q 72.

Section: 5.15 Technical Proposal -Cash Management

Page: 65

Question: What is your average return on the Sweeps/STIF?

Answer: DOI only maintains cash in STIFs on an exception basis. Cash is generally invested in the State of New Jersey Cash Management Fund.

Q 73.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Please share annual FX volumes (USD\$ Equiv) by market, broken down between custodian flow and third party flow?

Answer: Refer to Appendix 3. Note that past transaction volume is not necessarily indicative of future transaction volume.

Q 74.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: What percentage of non US assets are managed internally vs externally?

Answer: As stated on page 7 of the RFP, the Division utilizes advisers for its emerging market portfolios. The balance for those portfolios at November 30, 2014 was approximately \$4 billion.

Q 75.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: For the internally managed accounts do you plan to have the custodian execute FX's related to securities trades and asset servicing events such as dividends and corporate actions? Is this your current process?

Answer: The DOI competitively bids FX trades related to securities transactions. Currently, the custodian repatriates foreign currency on a daily basis related to dividends and corporate actions.

Q 76.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Please provide an FX transaction report for the plan (preferably quarterly) that includes FX volumes executed with the custodian versus third party providers?

Answer: Refer to Appendix 3. Note that past transaction volume is not necessarily indicative of future transaction volume.

Q 77.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Are portfolio managers and/or sub advisors given full discretion when managing FX needs?

Does discretion vary by asset class?

Answer: DOI traders and advisers make decisions with respect to spot FX transactions. FX transactions may only be executed with preapproved counterparties. Currently, daily income repatriations are performed by the custodian. All transactions are subject to the Director's supervision as fiduciary.

Q 78.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Please describe your FX process from both an internal and external management perspective including when you trade with the custodian vs. a third party, and the method of execution.

Answer: The DOI competitively bids FX trades related to securities transactions. Currently, the custodian repatriates foreign currency on a daily basis related to dividends and corporate actions.

Q 79.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: How is the incumbent custodian instructed for FX transactions currently for:

1. Trade related FX to settle security trades – standing instruction or swift messaging? Or, third party?
2. Asset Servicing (dividends, income, tax reclaim, corporate actions) – standing instruction or swift messaging?
3. Restricted Markets – standing instructions or swift messaging?

Answer: The DOI does not use SWIFT messaging. The advisers may use SWIFT messaging. Currently, standing instructions are utilized for daily income repatriations except in the case of Taiwan.

Q 80.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Are there currently any special pricing arrangements or execution processes, e.g. restricted market exceptions, in place with the incumbent custodian? If so, please describe.

Answer: At this time, income is not daily repatriated in Taiwan. With respect to regulatory requirements for trade related FX to be executed on shore, the FX is executed by the subcustodians in the local market (e.g., Korea, Indonesia, Malaysia, Philippines, Thailand). Refer to Appendix 3.

Q 81.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Is a hedging program utilized, either active or passive, to hedge any foreign currency/holding exposures?

Answer: DOI from time to time utilizes FX forwards to hedge foreign currency risk.

Q 82.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Can you provide the USD market value for each non US market?

Answer: Please refer to Appendix 2 of the RFP.

Q 83.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Please provide USD and Foreign Currency (USD equivalent) average daily balances of at least 6 months data (idle/on-balance sheet cash) with your current provider?

Answer: DOI only maintains cash in STIFs on an exception basis. Cash is generally invested in the State of New Jersey Cash Management Fund.

Q 84.

Section: 5.16 Technical Proposal - Foreign Exchange

Page: 67

Question: Are there any other currencies that you may add in the future?

Answer: DOI cannot predict this at this time.

Q 85.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Please clarify the frequency of valuation required for this service?

Answer: Please see the requirements as set forth in Section 3.10 of the RFP.

Q 86.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: What level of performance is required, total fund returns or detailed (i.e. sector / security level)?

Answer: Please see the requirements as set forth in Section 3.10 of the RFP.

Q 87.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Please identify the number of accounts by asset type that require this service (i.e. equity, fixed income).

Answer: Please refer to Sections 3.0 and 3.10 of the RFP.

Q 88.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Is universe reporting required?

Answer: Please refer to Section 3.10.11 of the RFP.

Q 89.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: What other performance services are required (Attribution, Characteristics, Risk Reporting)?

Answer: Include, but not be limited to, attribution, portfolio characteristics, and risk reports.

Q 90.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Could you please provide a copy of your latest performance report, or a list of benchmarks currently used?

Answer: Refer to the Monthly Director's Report, available at www.state.nj.us/doinvest for this information.

Q 91.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Do you require daily security-level performance reporting?

Answer: No.

Q 92.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: What level of performance reporting do you require for non-custodied assets?

Answer: Please refer to Section 3.0 but note that there are additional metrics related to the alternatives portfolio that DOI expects to see in the alternatives platform.

Q 93.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Do you require attribution and if so do you require at the Total Plan or Manager/Security level?

Answer: Yes, attribution is required at the total plan and subportfolio levels.

Q 94.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Do you require equity or fixed income characteristics?

Answer: Yes.

Q 95.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: Could you please provide the number of separate accounts, commingled accounts and composites broken down by equity, fixed income and other?

Answer: Section 1.2 of the RFP details the Funds. Section 3.0 sets forth the asset allocation categories for the Pension Fund. Bidder should ensure that their systems have the ability to meet these requirements.

Q 96.

Section: 5.21 Technical Proposal - Performance Measurement and Analytics

Page: 71

Question: With regard to the risk platform do you require the receipt of monthly reporting, direct access to the risk application, or both?

Answer: Both.

Q 97.

Section: 5.22 Technical Proposal - Compliance Monitoring and Reporting

Page: 74

Question: Please clarify the frequency of testing required for this service?

Answer: Per Section 3.11 of the RFP, daily compliance monitoring is required on a T+1 basis.

Q 98.

Section: 5.22 Technical Proposal - Compliance Monitoring and Reporting

Page: 74

Question: Please identify the number of custody accounts that require this service?

Answer: The Funds that require compliance monitoring are summarized in the table on page 7 (Section 3.0) of the RFP.

Q 99.

Section: 5.22 Technical Proposal - Compliance Monitoring and Reporting

Page: 74

Question: Are you seeking position level look-through into any commingled funds? Are you currently receiving this service?

Answer: There is currently no requirement for a look-through on commingled funds.

Q 100.

Section: 5.22 Technical Proposal - Compliance Monitoring and Reporting

Page: 74

Question: Please supply a copy of your current Compliance guidelines.

Answer: All investments must comply with NJAC 17:16 and bidder is expected to develop the tests within their system, subject to DOI approval, that will test for permissible investments and limitations set forth in these Regulations. In addition, bidder will be expected to monitor other rules that may include, but are not limited to such requirements as prohibited investments, regulatory country thresholds, etc.

Q 101.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Are you currently engaged in securities lending services with your provider?

Answer: Yes.

Q 102.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Please advise what is your current revenue sharing arrangement for securities lending with your current provided (i.e. 90/10?)

Answer: The current revenue sharing arrangement is 88%(DOI)/12%(contractor).

Q 103.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: What is the aggregate value on loan? Please provide a detailed listing of loans outstanding.

Answer: The aggregate value on loan may differ significantly on a daily basis based upon the securities held in the portfolio and the borrower's need. The list of securities held in the portfolio is summarized in Appendix 2 of the RFP.

Q 104.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Please provide the current (and expected) cash collateral investment guidelines for this program.

Answer: Please see Appendix 3 on page 122 of the RFP.

Q 105.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: What is the maximum duration (e.g., overnight, 30-, 60-, 90-days, etc.) that we are permitted to use for the revenue estimate?

Answer: Please refer to Appendix 3, Section B4 of the RFP.

Q 106.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Please provide a detailed listing (in Excel format) for the cash collateral investments.

Answer: The cash collateral requirements are set forth in Appendix 3 of the RFP. Since holdings change on a daily basis, a list of current collateral investments should not be required by the bidder in order to complete it's technical proposal.

Q 107.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Are you expecting to transition any of these legacy cash collateral investments to the new provider? If yes, which assets do you intend to transfer?

Answer: Since the collateral is currently invested primarily in overnight repo, it is unlikely that they will be transitioned to a new provider.

Q 108.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Is your current (and future) lending program subject to any restrictions (e.g., loan limits, minimum spreads, etc.)? Please provide details.

Answer: Please refer to NJAC 17:16-5 and Appendix 3 of the RFP.

Q 109.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Please provide a detailed holdings file, for all eligible assets, in excel format including the following fields: Security ID (Cusip/Sedol/ISIN), Security Description, Units, Asset Type Description, USD Market Value.

Answer: Please see Appendix 2. Assume all publicly traded assets are available for loan for purposes of the technical proposal.

Q 110.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Have you imposed any restrictions on your current S/L Program beyond those enumerated in both the RFP and the applicable NJ Statute(s)?

Answer: Please refer to the requirements as set forth in the RFP, NJAC17:16-5 and Appendix 3.

Q 111.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Please provide a listing of the approved borrowers for the NJDOI S/L Program and the assigned credit limit for each (if applicable)?

Answer: NJAC 17:16-5 requires that borrowers must be on a list of approved borrowers maintained by the Director and not more than 15 percent of the market value of the assets of any Common Pension Fund shall be loaned to any one borrower. Currently, in order for borrowers to be included on the approved list of borrowers, the borrower must be rated A1/P1/F1.

Q 112.

Section: 6.1 Technical Proposal - Securities Lending - General

Page: 78

Question: Please provide your monthly net Securities Lending revenue for 2013 & 2014?

Answer: Refer to Appendix 4.

Q 113.

Section: 6.2.3 Technical Proposal - Securities Lending Capabilities

Page: 80

Question: Please define "fees for hold"

Answer: A fee that is charged to a potential borrower for shares to be held for that borrower.

Q 114.

Section: 6.2.6 Technical Proposal - Securities Lending Capabilities

Page: 80

Question: The DOI asks for a breakdown of collateral types including, US equities, corporates, international equities and government bonds. Does the DOI want the non-US governments to be included in the "government bond" category?

Answer: Yes.

Q 115.

Section: 6.4.1 Securities Lending Collateralization

Page: 81

Question: Will the DOI review their required collateral types with the thought of expansion?

Answer: NJ Statute and NJAC 17:16-5 requires cash and cash equivalents (e.g. US Treasury obligations, irrevocable bank letters of credit) as collateral.

Q 116.

Section: 7.3 Terms & Conditions - Contract Transition

Page: 89

Question: What date does the DOI's current Securities Lending agreement expire?

Answer: The current contract will expire June 30, 2015.

Q 117.

Section: 7.11 Licenses and Permits

Page: 93

Question: Please confirm what licenses NJ DOI maintains for vendors used?

Answer: DOI does not require any licenses for vendors. Bidders should seek legal counsel with respect to licensing requirements of other federal, state or local agencies.

Q 118.

Section: 7.15.1 Terms & Conditions

Page: 95

Question: Please confirm that it is acceptable to provide comments on legal/contractual requirements including the general terms and conditions as part of our response to the RFP for consideration during negotiations.

Answer: Yes.

Q 119.

Section: 8.2 Right to Reject or Award in Part

Page: 97

Question: Does this section mean that the DOI is willing to award the Securities Lending portion to a Third Party Lending Agent ?

Answer: DOI will not award to a third party securities lending agent. DOI reserves the right to not award the securities lending portion of the RFP.

Q 120.

Section: 8.5 Selection Committee

Page: 97

Question: If a consultant is to be used in the evaluation process for Securities Lending, can you let us know who that will be?

Answer: A consultant will not be used in the evaluation of proposals.

Q 121.

Section: Appendix 1 Price Schedule

Page: 108

Question: Does the DOI currently pay an annual firm fixed fee as shown in Schedule 1 plus a transaction charge for the settlement of trades, as indicated in Price Schedule 2? Please explain.

Answer: No. The pricing outlined on Schedule 2 is new to this contract. The current contract can be found at http://www.state.nj.us/treasury/purchase/noa/contracts/t2061_09-x-20010.shtml

Q 122.

Section: Appendix 3 Securities Lending Collateral Investment Guidelines

Page: 122

Question: Investment Guidelines: Part B Would the DOI consider expanding the eligible collateral to include US equity securities under a fully indemnified lending and collateral reinvestment program?

Answer: NJ Statute and NJAC 17:16-5 requires cash and cash equivalents (e.g. US Treasury obligations, irrevocable bank letters of credit) as collateral.

Q 123.

Section: Appendix 3 Securities Lending Collateral Investment Guidelines

Page: 123

Question: Investment Guidelines: Part 3: "Securities received must not have a maturity exceeding 10 years." Is the restriction 10 year legal final maturity or average life?

Answer: NJAC 17:16-33.2(a)7 stipulates that securities delivered pursuant to the repurchase agreement shall have a maturity not exceeding 10 years from the date of the repurchase agreement.

Q 124.

Section: Appendix 3 Securities Lending Collateral Investment Guidelines

Page: 123

Question: Section C, Maturity. Would the DOI extend out its 30 day Repurchase Limitation?

Answer: No. NJAC 17:16-33.2(a)5 stipulates that the maturity of the repurchase agreement shall not exceed 30 days.

Q 125.

Section: Terms and Conditions

Page: N/A

Question: Section 4.1(a) Indemnification: Contractor proposes the addition of the following language to the provisions set forth in Section 4.1(a): Notwithstanding anything to the contrary herein, the Custodian shall not be liable for any indirect, special, consequential, or incidental damages.

Answer: The State is not amending Section 4.1. Note, however, that Section 4.1(a) applies to third party suits, and not to actions by the State.

Q 126.

Section: Terms and Conditions

Page: N/A

Question: Section 4.2 Insurance: Contract cannot agree to provisions requiring prior notice of cancellation of policies, and shall maintain required insurance coverage to the extent available at commercially reasonable rates.

Answer: The third sentence of the first paragraph of Section 4.2 is modified by deleting the language after the comma regarding notice prior to cancellation. The State is not adding the proposed language regarding availability of insurance at commercially reasonable rates. In the event of a market disruption resulting in the unavailability of insurance at commercially reasonable terms, the State will work with the Contractor to determine appropriate alternatives.

Appendix 1

Country	Purchases	Sales	Total Transactions
Australian	52	77	129
Brazilian	214	123	337
Canadian	84	102	186
Chilean	21	2	23
Czech	77	5	82
Danish	16	21	37
Egyptian	-	8	8
Euro Austria	5	13	18
Euro Belgium	7	12	19
Euro Finland	6	21	27
Euro France	38	91	129
Euro Germany	39	81	120
Euro Greece	30	12	42
Euro Ireland	12	8	20
Euro Italy	16	24	40
Euro Luxembourg	10	10	20
Euro Netherlands	22	85	107
Euro Portugal	4	10	14
Euro Spain	40	60	100
Hong Kong	470	537	1,007
Hungarian	7	42	49
Indonesian	200	714	914
Japan	132	316	448
Malaysian	36	147	183
Mexican	154	163	317
Israeli	2	6	8
Norwegian	6	29	35
Pakistan	1	13	14
Philippine	154	325	479
Polish	107	87	194
Pound (British)	120	193	313
Singapore	45	64	109
South African	224	137	361
South Korean	619	864	1,483
Swedish Krona	19	48	67
Swiss	42	101	143
Thailand	225	361	586
Turkish	131	200	331
United States	14,833	13,958	28,791
Total	18,220	19,070	37,290

Country	Total # Income Transaction s
Australian	296
Brazilian	196
Canadian	626
Chilean	2
China	6
Czech	4
Danish	48
Egyptian	4
Euro Austria	870
Hong Kong	234
Hungarian	4
Indonesian	32
Japan	530
Malaysian	40
Mexican	60
Norwegian	34
Pakistan	20
Philippine	60
Polish	14
Pound (British)	446
Singapore	184
South African	92
South Korean	243
Swedish Krona	32
Swiss	152
Taiwan	72
Thailand	106
Turkish	6
United States	13,106
Total	17,519

Appendix 3

FX transactions for the Pension Fund									
Date: 07/01/2013 To 06/30/2014									
Custodian					All other FX counterparties				
# executions	USD Equivalent Purchased	# executions	USD Equivalent Sold	Currency	# executions	USD Equivalent Purchased	# executions	USD Equivalent Sold	
2	557,982.47	64	29,314,908.82	AUD	26	76,481,123.34	13	107,317,868.67	
156	45,770,301.33	122	32,149,925.24	BRL	40	51,543,374.44	43	16,709,205.90	
		143	25,360,486.53	CAD	12	67,093,702.30	22	161,704,855.90	
9	2,254.77	33	32,219,376.45	CHF	4	39,351,727.63	18	255,356,020.01	
18	2,974,034.75	3	1,093,896.97	CLP					
1	152.07	3	1,802,542.72	CZK	51	56,803,831.54			
2	615.32	15	3,043,024.27	DKK	8	41,032,153.56	6	37,510,793.48	
		6	108,252.01	EGP					
10	237,105,987.15	201	218,639,616.60	EUR	69	619,690,883.84	54	817,726,358.36	
8	47,089,575.63	121	107,701,835.35	GBP	48	590,729,276.01	21	657,669,882.50	
144	63,144,030.65	209	51,152,731.72	HKD	100	78,478,295.56	160	141,801,910.86	
2	1,490,096.07	9	7,644,074.43	HUF	1	1,710,406.64	22	5,526,610.49	
200	28,454,297.19	736	47,360,980.06	IDR					
				ILS			6	19,180,156.07	
8	239,303,919.64	84	275,448,936.88	JPY	15	475,574,474.25	27	830,786,771.52	
600	214,407,806.31	887	206,462,864.58	KRW					
32	3,697,690.49	67	6,420,145.74	MXN	78	63,892,246.96	69	223,601,023.44	
37	10,245,898.12	167	19,918,504.65	MYR					
		14	2,703,396.62	NOK	2	9,422,262.27	18	37,023,775.06	
159	26,305,553.90	343	34,911,848.51	PHP					
1	8,718,746.58	19	710,054.00	PKR					
		12	2,870,284.67	PLN	59	29,201,600.65	45	22,418,017.16	
2	437,439.51	15	8,079,941.87	SEK	3	1,211,998.14	21	61,864,242.51	
		49	6,134,154.99	SGD	17	11,682,186.88	26	51,665,007.96	
250	42,610,479.55	276	67,004,180.57	THB					
35	9,984,643.97	4	864,876.36	TRY	40	17,779,648.82	98	59,292,562.66	
100	33,989,399.25	128	19,484,112.68	ZAR	49	42,956,291.43	24	30,837,974.28	
totals	1,776	3,730	1,208,604,953.29		622	2,274,635,484.26	693	3,537,993,036.83	

	In Thousands USD\$	
Year	2,013	2,014
July	1,795	1,127
August	1,790	905
September	1,826	597
October	1,528	763
November	1,570	898
December	1,894	738
January	1,517	756
February	1,248	569
March	1,405	750
April	1,512	848
May	2,601	2,525
June	1,453	1,305
Total	22,152	13,795