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ELIZABETH MAHER MUOIO
State Treasurer

CHRIS MCDONOUGH
Director

TO: Potential Bidders

FROM: Christopher McDonough
Director

DATE: July 26, 2018

RE: Securities Lending Services
Request for Proposals
Addendum #3

Please be advised that the deadline to submit proposals is:

Wednesday, August 8, 2018 by 3:00 p.m. Eastern

Proposals must be received in DOI's office by the deadline in order to be considered.

Please be advised that Section 3.1.19 of the RFP should read as follows:

“Contractor shall credit all payments-in-lieu-of distributions with respect to any loaned securities to the **collateral account or the securities lending custodial account as agreed** on the date such amounts are delivered by the borrower and add to the loan value any non-cash distribution as of the date such non-cash distribution is received by the borrower.”

Question and Answer Response

Objections/exceptions to the provisions of the RFP:

1. Question: Section 1.2 - Please clarify whether the market value in the portfolio holdings spreadsheet of \$50.6 billion is correct. The RFP on page 6 indicates DOI's assets totaled approximately \$76.7 billion as of March 30, 2018.

Answer: The portfolio holdings spreadsheet includes the lendable asset base. Not all assets are publicly traded securities.

2. Question: Section 1.2 - Can you please provide your most recent annual gross revenue and what is the fee split currently in place?

Answer: The gross revenue and fee split are not relevant to the current RFP as the requirements in the RFP differ from the current program.

3. Question: Section 3.1.9 - Please confirm that the reference to Investment Guidelines as Exhibit 4 is incorrect and that it should be Exhibit 3. If there is an Exhibit 4, can you please provide?

Answer: Confirmed. Investment Guidelines is Exhibit 3. There is not an Exhibit 4.

4. Question: Section 3.1.9 - Do you have cash collateral currently managed per the investment guidelines provided, or is all your cash in repurchase agreements (pursuant to NJAC 17:16-33)?

Answer: The requirements in the RFP differ from the current program.

5. Question: Section 3.1.9 -Does the DOI release the list of securities permissible for investment under N.J.A.C. 17:16 as referenced in section 3.1.9 within the Scope of Work?

Answer: There is not a "list" of securities permissible for investment. Investments must comply with N.J.A.C. 17:16 which can be accessed on the DOI public website.

6. Question: Section 3.1.9.1 - Please confirm that 3.1.9.1 under the RFP's "3.0 Scope of Work" can be interpreted as section 3.1.9(a) in Exhibit 2.

Answer: Confirmed.

7. Question: 3.1.9.2 - Please confirm that 3.1.9.2 under the RFP's "3.0 Scope of Work" can be interpreted as section 3.1.9(b) in Exhibit 2.

Answer: Confirmed

8. Question: Section 3.1.9.3 -Please confirm that 3.1.9.3 under the RFP's "3.0 Scope of Work" can be interpreted as section 3.1.9(c) in Exhibit 2.

Answer: Confirmed.

9. Question: Section 3.1.12 -States "...Contractor will bear all costs associated with the implementation and conversion process." Would you please list any costs that may be contemplated, .e.g. any charges by the custodian? Historically we have not seen any associated conversion costs.

Answer: The DOI does not have a list of contemplated costs.

10. Question: Section 3.1.15 -Please clarify what is meant by "next day liquidity."

Answer: Ability to return cash collateral to borrowers without incurring losses.

11. Question: Section 3.1.19 -States "Contractor shall credit all payments-in-lieu-of distributions with respect to any loaned securities to the collateral account...". We would expect to remit all income payments back to your custodian (State Street). Please clarify what you mean by collateral account?

Answer: Please see above for revision to Section 3.1.19 of the RFP.

12. Question: Section 3.1.20 -States "Contractor shall preserve DOI's voting rights for proxies...". Please confirm that you require the ability to selectively (on a security by security basis) recall for proxy and that the revenue estimate should be prepared with the assumption that we can lend over record date?

Answer: The DOI retains the right to recall securities for proxy voting and expects the lender to have the ability to request that the borrower vote the proxies in accordance with DOI's direction when the securities are not recalled.

13. Question: Section 4.2 -Please confirm that the first address, which you note is for overnight couriers, includes UPS (United Parcel Service)?

Answer: Confirmed. Please note due date and time for bid submission. Anything received after will not be accepted.

14. Question: Section 4.5.3 -Can the scope of any request for a disclosure of investigations be limited to the securities lending related business at the provider?

Answer: No. All business activities.

15. Question: Section 5.3.13 -Please define the term "quality mismatch."

Answer: The difference between securities on loan and reinvested capital.

16. Question: Section 5.14.1 -Should any yield assumptions, different from what we would expect to generate, be made on the cash collateral portion that is to be released to DOI to manage pursuant to the split collateral scenario?

Answer: The purpose of Revenue Estimates #2 and #4 under Exhibit 2 are to provide the DOI with revenue and spread estimates the agent would earn only on the portion of collateral that they retain for reinvestment. Considering the agent would be reinvesting a smaller portion of the overall cash collateral, from which daily liquidity will be provided to the borrowers, we would expect the yield assumptions to differ from when the agent reinvests 100%. In combination with the pricing sheet that clearly defines splits under various reinvestment scenarios the Division intends to gain a better understanding as to the economics of managing a portion of the cash collateral in-house. It is our understanding the yield on the portion the DOI manages in house would only be important in our own cost/benefit analysis and immaterial to any other scenario.

17. Question: Section 6.14: There is a note at the end of this section about registering with the State's centralized accounting system. We would expect a typical fee split structure and that State Street would bill us directly for support cost – do you envision a different process?

Answer: Bidder's are encouraged to propose a fee structure that satisfies the requirements of the RFP.

18. Question: Section 6.15.1: This section notes that proposed changes to the Terms and Conditions can be raised during negotiations prior to contract award as well as during the Q&A period. This statement is made again in section 8.1.1.1. We would like to have the opportunity for in-depth discussions regarding various facets of the service and your specific needs and objectives before we propose any changes to what appears to be general Terms and Conditions.

Answer: No question posed.

19. Question: Section 8: This section notes that most forms need to be completed 10 days prior to the contract award. Therefore we are not providing them in this response, however, we will include those forms noted in Section 4.5 and 4.6 as instructed. Please let us know if we have misunderstood the instructions.

Answer: Instructions understood correctly.

20. Question: Price Schedule: Under question #1, bidders are asked for proposed revenue splits across each of 6 possible collateral reinvestment programs (populate a grid). Assuming "Lender" means the Division of Investment, please:

Answer: Correct.

21. Question: Describe the DOI's capabilities and preferences with respect to investing cash collateral in-house.

Answer: DOI oversees investment of \$13 bln Cash Management Fund, under very similar guideline disclosed. The Division will weight in-house management based on economic and other factors.

22. Question: Under question #1, bidders are asked for proposed revenue splits across each of 6 possible collateral reinvestment programs (populate a grid). Assuming "Lender" means the Division of Investment, please:

Answer: Correct.

23. Question: Please provide actual or projected yields for Sections 3.1.9(a) and 3.1.9(b).

Answer: Per Section 5.14.1 yields should be based on Bidder's own results/estimation for the trailing twelve months

24. Question: Exhibit 2: The following references page 54, Exhibit 2. Are there any countries that the DOI does not wish to lend in? Are there any restrictions regarding overseas lending?

Answer: We retain the right restrict to lending to any country but do not currently do so.

25. Question: Exhibit 2: Please confirm that Exhibit 2's references to "investment guidelines specified in Exhibit 4" should be "Exhibit 3."

Answer: Confirmed. Investment Guidelines is Exhibit 3. There is not an Exhibit 4.

26. Question: Exhibit 2: For Exhibit 2's Revenue Estimate #2 and Revenue Estimate #4 where the agent invests some portion of the cash collateral, please provide the yield DOI is expected to generate on their portion of cash collateral investment.

Answer: The purpose of Revenue Estimates #2 and #4 under Exhibit 2 are to provide the DOI with revenue and spread estimates the agent would earn only on the portion of collateral that they retain for reinvestment. Considering the agent would be reinvesting a smaller portion of the overall cash collateral, from which daily liquidity will be provided to the borrowers, we would expect the yield assumptions to differ from when the agent reinvests 100%. In combination with the pricing sheet that clearly defines splits under various reinvestment scenarios the Division intends to gain a better understanding as to the economics of managing a portion of the cash collateral in-house. It is our understanding the yield on the portion the DOI manages in house would only be important in our own cost/benefit analysis and immaterial to any other scenario.

27. Question: Exhibit 3: The guidelines appear to only allow entities who are headquartered in the US. There are a limited counterparties who are headquartered in the US. Are branches of foreign banks or brokers located in the US acceptable as well?

Answer: The guidelines are clear. With respect to repo counterparties, only entities headquartered in the US are allowed.

28. Question: Exhibit 3: The guidelines also require the counterparty has a short-term rating of P-1/A-1/F1. Many of the repo counterparties do not have short term ratings and if they do are not rated by all 3 counterparties. Are parent ratings acceptable and are long term ratings acceptable as well?

Answer: In accordance with NJAC 17-16-33 which governs investment in repurchase agreements, if the seller is a securities broker, it must meet the criteria under N.J.A.C. 17:16-31 which requires the issuer (or any guarantor pledging its full faith and credit to the issue) to have a credit rating of P-1 or higher by Moody's, A-1 or higher by Standard & Poor's or F-1 or higher by Fitch.

29. Question: Exhibit 3: Throughout the guidelines it states there is an approved list for banks who issue Certificates of deposits and Money market funds. Can we please get a copy of this so we may provide an accurate response to the RFP?

Answer: For purposes of the response, the bidder should determine that any issuer it intends to use in developing its revenue estimate meets the requirements of N.J.A.C. 17:16-32 for Certificates of Deposit and N.J.A.C. 17:16-37 for Money Market Funds.

30. Question: Are there any existing plans to change to change the current asset allocation mix of the plan?

Answer: No.

31. Question: Over the short term, will the current investment strategy remain more/less the same forecasted out over the next several years?

Answer: The State Investment Council set the asset allocation annually.

32. Question: Does the DOI release the list of securities permissible for investment under N.J.A.C. 17:16 as referenced in section 3.1.9 within the Scope of Work?

Answer: There is not a "list" of securities permissible for investment. Investments must comply with N.J.A.C. 17:16 which can be accessed on the DOI public website.

33. Question: Could there be an opportunity for N.J.A.C. 17:16 to be updated to allow the use of the Tri-Party Repo?

Answer: It is not anticipated that Tri-Party Repo will be utilized in the program.

34. Question: Under the existing lending program today, is DOI managing any portion of securities lending cash collateral? If yes, what is the yield?

Answer: The cash collateral is invested by the securities lending agent under the current program.

Objections/Exceptions to the State of New Jersey Standard Terms and Conditions
(Rev: 2/16/18)

Please see Exhibit 6, posted on the web, for answers to this section.