

# **REQUEST FOR PROPOSALS**

## **Securities Lending**

### **Services**

**RFP Issue Date: Friday, June 1, 2018**

**Questions Due: Thursday, June 14, 2018  
by 3:00 pm Eastern**

**Proposals Due: Monday, July 9, 2018  
by 3:00 pm Eastern**

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## **1.0 INFORMATION FOR BIDDERS**

### **1.1 PURPOSE AND INTENT**

This Request for Proposals (RFP) is issued by the State of New Jersey, Department of the Treasury, Division of Investment (DOI). The purpose of this RFP is to solicit proposals from contractors to provide securities lending services for funds under DOI's jurisdiction.

The intent of this RFP is to award one (1) contract to one (1) responsible Bidder whose bid proposal conforming to this RFP is most advantageous to the State, price and other factors considered.

The State of New Jersey Standard Terms and Conditions (Rev. 2/16/2018) ("Standard Terms & Conditions"), as modified in Section 6.15, are incorporated herein by reference, are in addition to the terms and conditions set forth in this RFP and should be read in conjunction with them. The Standard Terms & Conditions are available online at:

<http://www.state.nj.us/treasury/purchase/forms/9.14.17%20NJ%20Standard%20Terms%20and%20Conditions%20with%20Signature%20Block.pdf>

### **1.2 BACKGROUND**

The DOI was created by P.L. 1950, c. 270, which became effective on July 1, 1950. The statute created the DOI and the State Investment Council ("SIC"). An important objective of the statute creating the DOI and the SIC was to centralize all functions relating to purchases, sales or exchanges of securities for the State's diverse funds under experienced and professional management.

Today, the SIC consists of sixteen members, eight appointed for staggered five-year terms by the Governor, three appointed for three-year terms by the trustees of three of the State's pension systems, two appointed for five-year terms by the Governor from a list of candidates put forward by the state AFL-CIO, one appointed for a three-year term by the Governor from a list of candidates put forward by the New Jersey Education Association (NJEA), one appointed for a five-year term by the Governor from a list of candidates put forward by the President of the Senate and Speaker of the Assembly, and one appointed for a three-year term by the Governor from a list of candidates put forward by the State Troopers Fraternal Association. The eight gubernatorial appointments (excluding those nominated by the President and Speaker of the Assembly, AFL-CIO, NJEA, and State Troopers Fraternal Association) are made with the advice and consent of the State Senate. No member of the SIC shall hold any office, position or employment in any political party, nor shall any member benefit directly or indirectly from any transaction made by the DOI. Members of the SIC serve without compensation.

The role of the SIC is to establish the methods, practices and procedures it deems necessary or proper, which govern the investment activities of the DOI. New regulations adopted by the

SIC from time to time are filed with the Office of Administrative Law and published in the New Jersey Register for public comment prior to adoption.

Implementation of investment policies is vested in the Director of the DOI (the “Director”). The Director is subject to the standards of prudent investment set forth in N.J.S.A. 52:18A-89. As part of the Director’s fiduciary role, the Director retains the power and right to select, monitor, and terminate consultants when doing so is in the best interest of the State. In making these decisions, the Director may consider many factors, including whether the consultant is complying with applicable statutes and regulations, and whether the consultant is meeting the investment goals and direction established by the SIC and the Director.

The DOI invests the assets of seven State pension funds (collectively, the “Pension Fund”), which totaled approximately \$76.7 billion as of March 30, 2018. The assets are primarily managed through two common pension trust funds, Common Pension Fund D and Common Pension Fund E. Common Pension Fund D invests primarily in global equity, fixed income, and certain derivative securities. Common Pension Fund E invests primarily in alternative investments, which includes private equity, real estate, real asset, and absolute return strategy funds, and global diversified credit funds. Permissible securities are governed by the SIC Regulations (N.J.A.C. 17:16).

The DOI utilizes securities lending to supplement income for the Pension Fund. The primary objective is to provide safety of principal while earning a positive spread to the rebate rate on securities lent. The second objective is to provide adequate daily liquidity for the collateral portfolio, and the third objective is to obtain the highest yield possible within the parameters of the guidelines, while balancing investment risk. Accordingly, it is important that the program be structured in such a way that the program generate consistent risk-adjusted returns.

N.J.A.C. 17:16-5, attached as Exhibit 3, governs Securities Lending Transactions. Under the SIC Regulation, securities of the Common Pension Funds may be loaned to a borrower in exchange for cash collateral. Cash collateral is limited to cash, U.S. Treasury obligations, and irrevocable bank letters of credit. The Common Pension Funds cannot accept any other form of non-cash collateral. The cash collateral can be reinvested in securities permissible for investment under the SIC Regulations and the program guidelines as set forth by DOI.

### **1.3 MINIMUM QUALIFICATIONS; SCREENING CRITERIA**

For securities lending services the Contractor shall satisfy and maintain the following minimum qualifications and requirements for the duration of the contract:

- 1.3.1 Be licensed to operate in the State of New Jersey;
- 1.3.2 Have a minimum of 10 years’ experience in providing securities lending services on an agency basis;

- 1.3.3 Have at least \$100 billion in securities lending lendable base for each of the last five years ending June 30, 2018;
- 1.3.4 Be willing to accept responsibility for DOI's securities lending program on an agency basis as a fully indemnified program specific to operational risk and borrower default;
- 1.3.5 All costs associated with the implementation and support of the third party agency lending program shall be borne by the third party lending institution.

Additional screening criteria to be considered may include, but are not limited to, financial and operational stability; uncompetitive fees; and unwillingness or inability to comply with SIC regulations, DOI policies, and/or the requirements of this RFP.

#### **1.4 KEY EVENTS**

##### **1.4.1 ELECTRONIC QUESTION AND ANSWER PERIOD**

DOI will electronically accept questions and inquiries from all potential Bidders via email at [gina.costello@treas.nj.gov](mailto:gina.costello@treas.nj.gov).

- The RFP should be clearly referenced in the subject line;
- Questions should be directly tied to the RFP and asked in consecutive order, from beginning to end, following the organization of the RFP ;
- Each question should begin by referencing the RFP page number and section number to which it relates; and
- Questions regarding the Standard Terms & Conditions and exceptions to mandatory requirements should contain requested changes.

Bidders must not contact DOI staff directly, in person, by telephone or by e-mail, other than through the email above, concerning this RFP.

The cut-off date for electronic questions and inquiries relating to this RFP is indicated on the cover sheet. Addenda to this RFP, if any, will be posted on the DOI website, <http://www.state.nj.us/treasury/doinvest/rfp.shtml>, after the cut-off date. (See RFP Section 1.5 for further information)

##### **1.4.2 DEADLINE AND LOCATION FOR SUBMISSION OF PROPOSAL**

In order to be considered for award, the proposal must be received by DOI on or before the due date and time as indicated on the cover sheet.

**ANY PROPOSAL NOT RECEIVED BY THE DATE AND TIME INDICATED ON THE COVER SHEET WILL BE REJECTED.**

If a Bidder requests, prior to the deadline, that the Director postpone the deadline due to a documentable cause of delay that is beyond the control of the Bidder, or if the Director otherwise determines that postponement is in the State's best interest, the Director shall designate a revised deadline. The Director shall post notice of any postponement of the deadline on the DOI website, <http://www.state.nj.us/treasury/doinvest/rfp.shtml>.

Bidders using U.S. Postal Service express mail services should allow additional time since the U.S. Postal Service does not deliver directly to DOI.

Bidders are required to provide proposals to the addresses and in the specific delivery format as described in Section 4.2.

**1.5 ADDITIONAL INFORMATION**

**1.5.1 ADDENDA: REVISIONS TO THIS RFP**

If it becomes necessary to clarify or revise this RFP, such clarification or revision will be by addendum. Any addendum to this RFP will become part of this RFP and part of any contract awarded as a result of this RFP.

ALL ADDENDA WILL BE ISSUED ON DOI'S WEB SITE:

<http://www.nj.gov/treasury/doinvest/rfp.shtml>

There are no designated dates for release of addenda. Therefore, interested Bidders should check DOI's website on a daily basis from the time of RFP issuance through the proposal submission deadline.

It is the sole responsibility of the Bidder to be knowledgeable of all addenda related to this procurement.

**1.6 BIDDER RESPONSIBILITY**

The Bidder assumes sole responsibility for the complete effort required in submitting a proposal in response to this RFP. It is the sole responsibility of the Bidder to be knowledgeable as to all of the requirements of this RFP and any Addenda. No special consideration will be given after proposals are opened because of a Bidder's failure to be knowledgeable as to such requirements.

**1.6.1 COST LIABILITY**

The State assumes no responsibility and bears no liability for costs incurred by a Bidder in the preparation and submittal of a proposal in response to this RFP.



### **1.6.2 PUBLIC DISCLOSURE OF PROPOSAL**

The Bidder's proposal and all information submitted by Bidders in response to this RFP may be released to the public under the New Jersey Open Public Records Act, N.J.S.A. 47:1A-1 et seq., ("OPRA") or the common law right to know, notwithstanding any disclaimers to the contrary submitted by a Bidder, except as may be exempted from public disclosure by OPRA and the common law.

A Bidder may designate specific information as not subject to disclosure pursuant to the exceptions to OPRA (see N.J.S.A. 47:1A-1.1) or the common law, when the Bidder has a good faith legal and/or factual basis for such assertion. The location in the proposal of any such designation should be clearly stated in a cover letter. The State reserves the right to make the determination as to what is exempt from disclosure, and will advise the Bidder accordingly. **The State will not honor any attempt by a Bidder to designate its entire proposal or the prices offered as exempt from disclosure.** In the event of any challenge to the Bidder's assertion of confidentiality with which the State does not concur, the Bidder may elect to defend its assertion in a timely manner at its own expense.

All received proposals will remain unopened until the deadline for proposal submission. After the deadline, only the names and addresses of the Bidders submitting proposals may be made public. The contents of the proposals shall not be available for public inspection until the Notice of Intent to Award is issued by the Director.

After the Notice of Intent to Award is issued, each proposal and, if applicable, documentation relating to any negotiations, will be available for public inspection in accordance with governing law.

### **1.6.3 PRICE ALTERATION IN HARD COPY PROPOSALS**

Proposal prices must be typed or written in ink. Any price change (including "white-outs") must be initialed. Any price alteration that has not been initialed shall be disregarded, unless a duplicate copy within the Bidder's proposal packet contains the same alteration. Examples of alterations include, but are not limited to, cross-outs, erasures, white-outs, write-overs, and strikeovers, with re-entered prices. If the alteration has not been initialed, that particular item only shall be rejected, except if the extended price is verifiably correct and does not contain an alteration or if the extended total price is verifiably correct and does not contain an alteration, it shall be considered the offered price. In the event of a rejection of a single line of a proposal responding to a request for multiple prices for multiple items, the remainder of the proposal shall be evaluated.

### **1.6.4 WITHDRAWING PROPOSAL**

A Bidder discovering an error in its bid proposal prior to the proposal submission deadline may request, in writing, that its submitted proposal be withdrawn. If the request is granted, the Bidder may submit a revised bid proposal provided it is received prior to the proposal submission deadline.

A Bidder discovering an error in its bid proposal after the proposal submission deadline but before the contract award may make written application to the Director for authorization to withdraw its bid proposal. The Director shall consider the Bidder's good faith in making the request, as evidenced by: whether the mistake relates to a material feature or term of the proposal; whether the mistake occurred notwithstanding the Bidder's exercise of reasonable care; and whether the error is so significant that to enforce the contract resulting from the proposal would be unconscionable. The Director shall also consider whether DOI would be significantly prejudiced by granting the request.

#### **1.6.5 JOINT VENTURE**

If a joint venture is submitting a proposal, the agreement between the parties relating to such joint venture should be submitted with the joint venture's proposal. Authorized signatories from each party comprising the joint venture must sign the proposal. A separate Ownership Disclosure Form, Disclosure of Investigations and Other Actions Involving Bidder Form, Disclosure of Investment Activities in Iran, Vendor Certification and Political Contribution Disclosure Form, Chapter 51 / Executive Order 117 Vendor Certification and Disclosure of Political Contributions Form, and Affirmative Action Employee Information Report must be supplied for each party to a joint venture. Each party comprising the joint venture must also possess a valid Business Registration Certificate ("BRC") issued by the Department of Treasury, Division of Revenue prior to the award of a contract. Refer to Section 8.1.6 of this RFP.

## 2.0 DEFINITIONS

### 2.1 GENERAL DEFINITIONS

The following definitions will be part of any contract awarded or order placed as result of this RFP.

**Addendum** – A written clarification or revision to this RFP issued by the Division of Investment.

**Bidder** – An individual or business entity submitting a proposal in response to this RFP.

**BPS** – Basis points.

**Common Pension Fund** – A common trust fund used to pool the assets of certain of the individual Pension Plans for the purpose of investment.

**Contract** – This RFP (including the Standard Terms & Conditions), any addenda to this RFP, the Bidder's proposal submitted in response to this RFP, the Bidder's Best and Final Offer, the Securities Lending Agreement, the Third Party Lending Operational Procedures Agreement and DOI's Notice of Award.

**Contractor** – The Bidder awarded a contract resulting from this RFP.

**Council (SIC)** – State Investment Council.

**Director** – The Director of the Division.

**Division (DOI)** – The State of New Jersey Department of the Treasury, Division of Investment.

**DOI Contract Manager** – The DOI employee responsible for the approval of all deliverables, i.e., tasks, sub-tasks or other work elements in the Scope of Work, as set forth in Section 3.0.

**Firm, Fixed Price** – A price that is all-inclusive of direct costs and indirect costs, including, but not limited to, direct labor costs, overhead, fee or profit, clerical support, equipment, materials, supplies, managerial (administrative) support, all documents, reports, forms, travel, reproduction and any other costs. No additional fees or costs shall be paid by the State unless there is a change in the scope of work.

**Joint Venture** – A business undertaking by two or more entities to share risk and responsibility for a specific project.

**May** – Denotes that which is permissible, not mandatory.

**OPRA** - New Jersey Open Public Records Act, N.J.S.A. 47:1A-1 et seq.

**Pension Funds** – The Pension Plans and the Common Pension Funds.

**Pension Plans** – The individual retirement systems: Public Employees' Retirement System (PERS), Teachers' Pension & Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement System (SPRS), Judicial Retirement System (JRS), Consolidated Police and Firemen's Pension Fund (CPFPPF), and Prison Officers' Pension Fund (POPF).

**Project** – The undertaking or services that are the subject of this RFP.

**Request for Proposals (RFP)** – This document which establishes the bidding and contract requirements and solicits proposals to meet the needs of DOI as identified herein.

**Securities Lending Agreement** – The securities lending agreement with DOI outlining specific operating procedures and contractual provisions relating to the securities lending program.

**Selection Committee** – A committee established by the Director to review and evaluate proposals submitted in response to this RFP and to recommend a contract award to the Director.

**Shall or Must** – Denotes that which is a mandatory requirement. Failure to meet a mandatory requirement will result in the rejection of a proposal as materially non-responsive.

**Should** – Denotes that which is recommended, not mandatory.

**SOC1** – Service Organization Controls Report is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting.

**Standard Terms & Conditions** – State of New Jersey Standard Terms and Conditions (Rev. 2/16/2018) which are available online at:

<http://www.state.nj.us/treasury/purchase/forms/9.14.17%20NJ%20Standard%20Terms%20and%20Conditions%20with%20Signature%20Block.pdf>

All references in the Standard Terms & Conditions to the Director of the Division of Purchase and Property shall for this RFP be references to the Director of DOI. All references in the Standard Terms & Conditions to the Division of Purchase and Property shall for this RFP be references to DOI.

**State** – State of New Jersey.

**Subtasks** – Detailed activities that comprise the actual performance of a task.

**Subcontractor** – An entity having an arrangement with the Contractor, whereby the Contractor uses the products and/or services of that entity to fulfill some of its obligations

under its State contract, while the Contractor retains full responsibility for the performance of all of its obligations under the contract, including payment to the subcontractor. The subcontractor has no legal relationship with the State, only with the Contractor.

**Task** – A discrete unit of work to be performed.

**Third Party Lending Operational Procedures Agreement** – An agreement between DOI, the contractor and DOI's custodian outlining the operational responsibilities of each party.

### **3.0 SCOPE OF WORK**

#### **3.1 SECURITIES LENDING SERVICES**

3.1.1 Securities Lending Services shall be utilized primarily to supplement income for the Pension Funds. The DOI has a risk-averse posture.

3.1.2 Contractor shall provide securities lending services relating to the investments and assets of the Pension Funds in accordance with N.J.A.C.17:16-5 (which can be accessed at: <http://www.lexisnexis.com/hottopics/njcode/>).

Contractor shall furnish all services, materials, and personnel necessary to provide securities lending services to DOI in compliance with those professional and/or fiduciary standards established as reasonable and customary by the industry for similar services. In the provision of securities lending services, Contractor shall conform to all applicable local, state, federal, and foreign laws, rules, and regulations governing such services.

3.1.3 Contractor shall enter into a securities lending agreement with DOI outlining specific operating procedures and contractual provisions relating to the securities lending program. The Bidder should propose any exceptions to the Standard Terms & Conditions and/or the requirements of this RFP during the Question and Answer Period.

This agreement should include, but need not be limited to, the following: designated assets, approved borrowers, master securities loan agreement, collateral levels, mark to market provision, distributions, termination of securities loans, maintenance of collateral securities, loan premiums and rebates, reporting, revenue sharing, fees, indemnification provisions, termination provisions and collateral reinvestment rules and guidelines.

3.1.4 Contractor shall enter into a Third Party Lending Operational Procedures Agreement with DOI and its custodian. Contractor shall bear all reasonable transaction costs charged by the custodian.

3.1.5 Contractor shall provide securities lending services for global securities, including equity and fixed income securities, on an agency basis.

3.1.6 Contractor shall maintain a separate collateral pool for the DOI lending program apart from other clients' lending programs.

3.1.7 Contractor shall require that all loans of securities be collateralized by cash or cash equivalents, subject to approval by the Director, at applicable collateralization levels, which give consideration to both competitive market levels and risk mitigation, and which will be directed

and approved by DOI. Cash equivalents means U.S. Treasury obligations and irrevocable bank letters of credit or any other security deemed by the Director as convertible immediately to cash.

- 3.1.8 Contractor shall not loan securities that will result in negative income.
- 3.1.9 The cash collateral shall be reinvested in securities permissible for investment under N.J.A.C. 17:16 and included on a list of securities permissible for securities lending transactions maintained by the Director. All collateral reinvestments shall also be subject to exposure limits as determined by the Director. The Contractor shall offer the following options for cash collateral reinvestment at DOI's discretion and DOI reserves the right to invest all or a portion of the collateral portfolio:
  - 3.1.9.1 The cash collateral shall only be invested in deliverable repurchase agreements that comply with N.J.A.C. 17:16-33. The proposal should not contemplate the use of tri-party repurchase agreements.
  - 3.1.9.2 The cash collateral shall be invested in securities that comply with the Investment Guidelines attached as Exhibit 4.
  - 3.1.9.3 The cash collateral shall be invested in securities which comply with the Investment Guidelines, but subsequent to modifications as proposed by Contractor and approved by the Council. Contractor shall include such proposed modifications in its bid that may result in increased income levels while maintaining a reasonable risk profile. There is no guarantee that DOI will propose modifications to the State Investment Council Regulations or that the Council will accept proposed modifications to achieve this option. Bidders must be willing to accept that the program will operate under (a) or (b) above.
- 3.1.10 Contractor shall collateralize and mark-to-market all loaned securities on each business day. The borrower shall be required to deliver additional collateral in the event the market value of the cash collateral is less than the required percentage of the market value of the loaned securities as required by the securities lending agreement. Loans with insufficient collateral must be adjusted within 24 hours and prior to the securities being re-loaned to the same borrowers.
- 3.1.11 Contractor shall provide a full program indemnification specific to operational risk and borrower default. Such indemnification shall include borrower's failure to return securities, failure to pay DOI for income distributions on the securities while they are on loan, failure to require and maintain adequate collateral, and bankruptcy of the borrower. Contractor or its insurer shall maintain sufficient net equity to provide the required indemnification(s) to DOI.

- 3.1.12 Contractor may provide indemnification specific to collateral reinvestments.
- 3.1.13 Contractor shall assist in the conversion process from the current provider, if applicable, specifically providing novation strategies and minimizing any losses to the program upon conversion. Contractor will bear all costs associated with the implementation and conversion process.
- 3.1.14 Contractor shall establish a list of proposed eligible borrowers and a maximum amount that may be borrowed by each borrower subject to review and approval by DOI. In accordance with N.J.A.C. 17:16-5.4(a) not more than 15 percent of the market value of the assets of any Common Pension Fund shall be loaned to any one borrower. Upon written instructions from DOI, Contractor shall remove a borrower from the list or suspend or terminate lending of securities from one or more Funds to one or more borrowers. Contractor shall conduct ongoing reviews of borrowers' qualifications and the balance on loan relative to approved borrowers' lending limits. Contractor shall notify DOI immediately of any proposed modifications to individual borrower names and limits. No affiliate of Contractor shall be a borrower under the program.
- 3.1.15 Contractor shall provide next day liquidity at the option of DOI for any securities on loan.
- 3.1.16 Contractor shall provide internet access to daily program reporting which should include, but need not be limited to the following:
- 3.1.16.1 Lendable base, securities on loan, term, days out on loan, daily utilization and net spread;
  - 3.1.16.2 Collateral, including daily collateral required and pledged, and collateralization levels by borrower, asset class, and total program;
  - 3.1.16.3 Outstanding loans and loan details by borrower;
  - 3.1.16.4 Collateral portfolio details;
  - 3.1.16.5 Daily, month-to-date and year-to-date earnings detail; and
  - 3.1.16.6 Any other data points as reasonably requested by DOI.
- 3.1.17 Contractor shall provide monthly detailed accounting reports to DOI and its custodian, by the fifth (5<sup>th</sup>) business day of each month, of all collateral activity and positions, lending transactions, securities on



loan, gross income, rebates, and fees in accordance with DOI's monthly closing deadlines. DOI reserves the right to modify the closing schedule.

- 3.1.18 Contractor shall provide all required information as requested for disclosure in DOI's annual financial statements for cash collateral, non-cash collateral, and securities on loan in order to comply with applicable accounting standards, including, but not limited to, GASB 28, 40 and 72.
- 3.1.19 Contractor shall credit all payments-in-lieu-of distributions with respect to any loaned securities to the collateral account 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.
- 3.1.20 Contractor shall have the capability to restrict individual assets from the lending program upon DOI's direction at any time. Contractor shall terminate any loan upon receipt of instructions from DOI and shall have the ability to recall loaned securities within the customary settlement period. Contractor shall preserve DOI's voting rights for proxies by requiring all identified loaned securities be returned to DOI prior to the record date of the security at DOI's direction.
- 3.1.21 Contractor shall assume responsibility for any and all overdraft expenses, lost interest and other costs in the event of a simple default that results from the late delivery of securities that have been sold by DOI.
- 3.1.22 Contractor shall meet with DOI on at least a quarterly basis, at the discretion of DOI, to review the program. Contractor shall attend at least one State Investment Council meeting annually, at the discretion of DOI, and provide an overview of the program.

## **4.0 PROPOSAL PREPARATION AND SUBMISSION**

### **4.1 PROPOSAL PREPARATION - GENERAL**

**4.1.1 IN ORDER TO BE CONSIDERED, A PROPOSAL MUST ARRIVE AT DOI IN ACCORDANCE WITH THE INSTRUCTIONS ON THE RFP COVER PAGE. BIDDERS ARE CAUTIONED TO ALLOW ADEQUATE DELIVERY TIME TO ENSURE TIMELY DELIVERY OF PROPOSALS. LATE PROPOSALS SHALL BE INELIGIBLE FOR CONSIDERATION.**

4.1.2 The Bidder is advised to thoroughly read and follow all instructions contained in this RFP, including the instructions on the RFP's cover page, in preparing and submitting its proposal.

4.1.3 Use of URLs in a proposal should be kept to a minimum and may not be used to satisfy any material term of an RFP. If a preprinted or other document included as part of the proposal contains a URL, a printed (or if a bid is submitted electronically, electronic) copy of the URL page shall be provided and will be considered as part of the proposal. Additional URLs on the copy of the URL page shall not be considered as part of the proposal unless a copy of those URL pages are also provided.

### **4.2 PROPOSAL SUBMISSION**

The Bidder must submit the following proposal copies via overnight courier to the addresses provided below.

**DELIVER TO DOI at the following address:**

**Attn: Gina Costello  
Division of Investment  
Department of the Treasury  
50 West State Street, 9<sup>th</sup> Floor  
Trenton, NJ 08608**

**If using U.S. Postal Service express mail:**

**Attn: Gina Costello  
Division of Investment  
Department of the Treasury  
50 West State Street, P.O. Box 290  
Trenton, NJ 08625-0290**

**Bidders using U.S. Postal Service express mail services should allow additional time since the U.S. Postal Service does not deliver directly to DOI.**

- **One (1) complete ORIGINAL proposal clearly marked as the “ORIGINAL” proposal.**
- **Seven (7) complete and exact copies clearly marked “COPY.”**
- **Two (2) complete and exact ELECTRONIC copies** of the original proposal in PDF file format on disc (CD or DVD) or portable USB drive to be viewable and "read only" by State evaluators using Adobe Acrobat Reader software.
- **One (1) complete and exact ELECTRONIC copy** of the original proposal in an editable and “writable” PDF file format on disc (CD or DVD) or portable USB drive for redaction.

Copies are necessary in the evaluation of the proposal and for record retention purposes. A Bidder failing to provide the requested number of copies will be charged the cost incurred by the State in producing the requested number of copies. The Bidder should make and retain a copy of its proposal.

### **4.3 PROPOSAL ORGANIZATION**

The proposal should be submitted in two volumes with the content of each volume as indicated below:

#### **4.3.1 VOLUME 1**

- Section 1 - Forms (Sections 4.5 and 4.6)
- Section 2 – Price Schedule (Exhibit 1)

#### **4.3.2 VOLUME 2**

- Section 1 - Technical Proposal
- Section 2 – Revenue Estimate (Exhibit 2)

### **4.4 CERTIFICATIONS**

#### **4.4.1 NON-COLLUSION**

By submitting a proposal, the Bidder certifies as follows:

- The price(s) and amount of its proposal have been arrived at independently and without consultation, communication or agreement with any other Contractor, Bidder or potential Bidder.
- Neither the price(s) nor the amount of its proposal, and neither the approximate price(s) nor approximate amount of this proposal, have been disclosed to any other firm or person who is a Bidder or potential Bidder, and they will not be disclosed before the deadline for proposal submission.

- No attempt has been made or will be made to induce any firm or person to refrain from bidding on this contract, or to submit a proposal higher than this proposal, or to submit any intentionally high or noncompetitive proposal or other form of complementary proposal.
- The proposal is made in good faith and not pursuant to any agreement or discussion with, or inducement from, any firm or person to submit a complementary or other noncompetitive proposal.
- The Bidder and its affiliates, subsidiaries, officers, directors, and employees are not currently under investigation by any governmental agency and have not in the last four (4) years been convicted of, or found liable for, any act prohibited by state or federal law in any jurisdiction, involving conspiracy or collusion with respect to bidding on any public contract.

#### **4.4.2 BUSINESS ETHICS GUIDE**

The Treasurer has established a business ethics guide to be followed by State Contractors in their dealings with the State. The guide provides further information about compliance with Section 2.8 of the Standard Terms & Conditions. The guide can be found at:

[http://www.state.nj.us/treasury/purchase/ethics\\_guide.shtml](http://www.state.nj.us/treasury/purchase/ethics_guide.shtml)

By submitting a proposal, the Bidder is automatically certifying that it has read the guide, understands its provisions and is in compliance with its provisions.

### **4.5 FORMS REQUIRED WITH PROPOSAL**

#### **4.5.1 COVER LETTER**

The Bidder shall submit a cover letter with its proposal, including the signature of an authorized representative of the Bidder. If the Bidder is a limited partnership, the cover letter must be signed by a general partner. If the Bidder is a joint venture, the cover letter must be signed by a principal of each party to the joint venture.

#### **4.5.2 OWNERSHIP DISCLOSURE FORM**

Pursuant to N.J.S.A. 52:25-24.2, in the event the Bidder is a corporation or partnership, the Bidder must complete the attached Ownership Disclosure Form. A current completed Ownership Disclosure Form must be received prior to or accompany the proposal.

#### **4.5.3 DISCLOSURE OF INVESTIGATIONS AND OTHER ACTIONS INVOLVING BIDDER**

The Bidder shall provide a detailed description of any investigation, litigation, including but not limited to administrative complaints or other administrative proceedings, involving any public sector clients during the past five (5) years. This description shall include the nature and status of the investigation, and, for any litigation, the caption of the action, a brief description of the action, the date of inception, current status, and, if applicable, disposition. The Bidder shall use the attached Disclosure of Investigations and Other Actions Involving Bidder form for this purpose.

#### **4.5.4 SUBCONTRACTOR UTILIZATION PLAN**

All Bidders intending to use a subcontractor must submit a completed Subcontractor Utilization Plan. The Subcontractor Utilization Plan form may be found at the following website:

<http://www.state.nj.us/treasury/purchase/forms/SubContractingForms.pdf>

#### **4.5.5 DISCLOSURE OF INVESTMENT ACTIVITIES IN IRAN**

Pursuant to N.J.S.A. 52:32-58, the Bidder must certify, at the time the bid is submitted, that neither the Bidder, nor any of its parents, subsidiaries or affiliates, is identified on the State of New Jersey Department of Treasury's list of entities determined to be engaged in prohibited investment activities in Iran. The Bidder shall use the attached Disclosure of Investment Activities in Iran form for this purpose.

### **4.6 FORMS REQUIRED BEFORE CONTRACT AWARD THAT SHOULD BE SUBMITTED WITH THE PROPOSAL**

#### **4.6.1 SOURCE DISCLOSURE CERTIFICATION FORM**

Pursuant to N.J.S.A. 52:34-13.2, the Bidder should disclose the location by country where services under the Contract, including subcontracted services, will be performed. If any of the services cannot be performed within the United States, the Bidder shall state with specificity the reasons why the services cannot be so performed. The Bidder shall use the attached Source Disclosure Certification form for this purpose.

## **5.0 TECHNICAL PROPOSAL**

The Bidder shall provide a brief narrative (not exceeding 3 pages) outlining its technical approach and indicating its ability to comply with the requirements of Section 3. Include any differentiating factors relative to your competition. Include a description of any strategies that you employ that you may consider unique.

In addition, 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. The Bidder should include the level of detail it determines necessary to assist the selection committee in its review of the Bidder's proposal.

### **5.1 GENERAL INFORMATION**

- 5.1.1 Please provide background information on your organization including:
  - a. Ownership structure, including what percent is employee owned;
  - b. Relationship with any affiliated companies;
  - c. Any corporate structure changes over the past 3 years, including but not limited to, acquisitions, joint-ventures, mergers, etc. that have directly impacted the securities lending business or materially impacted the parent organization;
  - d. The year the securities lending business was founded;
  - e. How long your firm has been engaged in domestic and international securities lending; and
  - f. The regulatory bodies that govern the securities lending business and a description of any regulatory infractions over the past 5 years.
- 5.1.2 Describe your firm's line of business and how securities lending fits within the Bidder's overall corporate structure.
- 5.1.3 What investments has your firm recently made in its security lending business? What is your organization's strategy for growing your securities lending business? Is there lower margin business that you are likely to turn down? If so, please describe.
- 5.1.4 Where is the securities lending group headquartered? Please list all additional locations that conduct securities lending operations and the functions performed at each of these locations.
- 5.1.5 What is the approximate revenue and profit contribution of your securities lending business to the overall company revenue and profit in percentage terms? If securities lending is not its own line of business, what other business strategies fall under its line of business?

- 5.1.6 Are there any current organizational issues or concerns? Please describe the personnel turnover in the securities lending business over the last five years.
- 5.1.7 Describe how securities lending personnel are compensated. Provide the incentive basis for bonuses.
- 5.1.8 Describe any pending litigation with respect to the securities lending business and your firm's overall business.
- 5.1.9 Provide a copy of the most recent SOC1 report. Is this report issued annually?
- 5.1.10 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.
- 5.1.11 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.
- 5.1.12 Provide an organizational chart identifying the total number of professionals within the securities lending group by function and the key personnel within the securities lending team. 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.
- 5.1.13 Does your organization subcontract any of the securities lending services? If yes, provide details.
- 5.1.14 Please provide the current number of clients, broken out by client type and lendable asset base.
- 5.1.15 Disclose how many clients or aggregate asset size you can effectively handle and discuss why. Does your securities lending program have any capacity limitations?
- 5.1.16 Provide client turnover information for your firm's securities lending clients for each of the last three calendar years ending December 31, 2017.
- 5.1.17 For each client gained, provide the following information:
- Name of client gained;
  - Lending base (in \$ million); and
  - Date hired.

5.1.18 For each client lost, provide the following information:

- Name of client lost;
- Date hired;
- Date terminated;
- Lending base (in \$ million);
- Background on the departure; and
- Indicate whether DOI may contact the client.

5.1.19 Include at least three, and up to five, references for large public, corporate, or sovereign wealth funds with similar lending pools to DOI.

5.1.20 Provide a detailed transition timetable including novation strategies.

5.1.21 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.

Submit a copy of your standard securities lending contract. Note that the provisions of the agreement should be consistent with the provisions of the 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 this RFP, please indicate that the proposed changes have been reviewed and approved by your legal representative.

## **5.2 SECURITIES LENDING CAPABILITIES**

5.2.1 Describe your lending philosophy explaining how you seek to maximize revenues for clients. Is the goal of the program to maximize intrinsic spreads? If so, how do you pursue this goal? Do you pursue maximizing utilization rates of general collateral as a strategy? If yes, please explain why you believe that this may be a robust strategy to pursue.

5.2.2 In which geographic markets does your firm lend securities? Please differentiate by security type. What is the current estimated spread to Federal Funds rate in each country by security type?

5.2.3 List any asset classes or security types that you do not lend.

5.2.4 Please describe your use of term loans including how often they are used, how you decide whether to enter into a term loan, and any other factors you deem relevant.

5.2.5 Do you employ a “fees for hold” arrangement within your securities lending program? Please describe.



- 5.2.6 What policies and procedures do your traders follow in negotiation of rebate rates? How did your rebate rates compare to benchmark data over the past 12 months (please indicate the benchmark source)?
- 5.2.7 Describe any tools or systems that you maintain to identify and compile borrower demand.

### **5.3 SECURITIES LENDING RISK MANAGEMENT**

- 5.3.1 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; and
  - Currency Fluctuation Risk;
- 5.3.2 Describe how your firm manages risk related to indemnifications on a program-wide basis.
- 5.3.3 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? If yes, please describe. What was the recourse provided to clients and the level of dialogue to explain (resolve) the issues?
- 5.3.4 Have there been any other instances over the past five years where you incurred negative yields?
- 5.3.5 Do you have a dedicated compliance officer and team monitoring the securities lending program? What are the roles and responsibilities? Please describe the reporting structure for the team.
- 5.3.6 Do you lend to your affiliate(s)? If so, please provide detailed information on the compliance procedures in place to mitigate any conflicts of interests. Please demonstrate how you ensure that the affiliate(s) are not receiving preferential treatment relative to other approved borrowers.
- 5.3.7 Do you have pre- and post-trade compliance systems to ensure compliance with fund guidelines?
- 5.3.8 Do you have the ability to aggregate counterparty risk across both the lending side and the reinvestment side?

- 5.3.9 How do you conduct asset/liability (gap) analysis, specifically the duration of the loan and cash investments? On what frequency? What are the underlying assumptions utilized for loan duration in the analysis?
- 5.3.10 Do you stress test your securities lending program? Describe the methodology and procedures utilized for stress testing, including the frequency of testing.
- 5.3.11 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.)

Calendar Year	1 <sup>st</sup> Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr
2015				
2016				
2017				

- 5.3.12 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?
- 5.3.13 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?
- 5.3.14 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.
- 5.3.15 What additional safeguards are offered by the firm to its lending participants?

**5.4 SECURITIES LENDING COLLATERALIZATION**

- 5.4.1 Although DOI shall only accept cash and cash equivalents as collateral, what other types of collateral does your program accept against loans? Where are these securities held in custody? Where are the collateral reinvestment securities held in custody? What is the percentage breakdown of the collateral types your program holds on average?

- 5.4.2 What investment vehicles have you historically used for cash collateral reinvestment? Summarize quarterly performance for the last three calendar years through December 2017, of each vehicle, as well as the investment philosophy, investment guidelines and performance objectives for each vehicle.
- 5.4.3 What are the minimum established collateralization levels by type of security? How far below the required collateralization percentage must the collateral dip before a margin call is made?
- 5.4.4 What fees are charged for investment management/custody of collateral investments?
- 5.4.5 With respect to collateralization, provide the following information:
- Submit the collateralization level proposed for the DOI program by lendable asset type (e.g. US dollar denominated equities, international equities, U.S. Treasuries, etc.). Please note that in accordance with N.J.A.C. 17:16-5.4(b) in no event shall the required collateral level be less than 100 percent of the market value of the loaned securities.
- 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)?
- 5.4.6 How is collateral reinvestment management handled? What is the role and function of the credit analysis team?
- 5.4.7 Is the mark to market process done by loan or in aggregate by borrower? Please explain.
- 5.4.8 Does your firm currently act as agent for programs wherein the client invests all or a portion of the collateral portfolio? Is so, please provide details. What is the typical percentage of the collateral portfolio managed by the lenders? Do these programs have a different revenue sharing split? If so, please provide details. Also provide details of any operational requirements and timelines for the lender under this scenario.

## **5.5 SECURITIES LENDING BORROWER CONSIDERATION**

- 5.5.1 What part of the organization is responsible for the credit review and approval of counterparties? How many professionals exist within this group? Are the members of this team dedicated to the securities lending program? Who does the head of this group report to?

- 5.5.2 Describe your credit analysis process for approving and monitoring the borrowers who participate in your securities lending program (both international and domestic). How are credit limits determined for borrowers? How often do you review the limits? Are credit limits set in conjunction with other areas of your organization? Have you ever dismissed or suspended a borrower within your program? Please describe.
- 5.5.3 Furnish a copy of your standard Borrower's Agreement(s) specific to Securities Lending done on an agency basis. Please indicate if your firm would be amenable to modifications which may be required by DOI. Please advise if this may impact your projected program utilization for the DOI program in any way.
- 5.5.4 How do you risk adjust credit limits based on securities borrowed?
- 5.5.5 Provide a list of your current approved borrowers and their credit rating, if applicable. Identify the top ten borrowers and the percentage these borrowers represent of the total program. Can a client restrict a program to specific borrowers?
- 5.5.6 Identify any competitive advantages the firm has in dealing with broker/dealers and how this benefits your clients.
- 5.5.7 Do you proactively visit borrowers? Please provide dates of the last time you visited the top ten borrowers within your program.
- 5.5.8 Does your organization have compensation arrangements with borrowers beyond the normal form of negotiating rebates/fees? If so, please explain.

## **5.6 SECURITIES LENDING INDEMNIFICATION**

- 5.6.1 Describe your full collateral, operational and borrower default indemnification offerings, and more specifically, the indemnifications your firm is offering in response to this RFP. Please reference each offered indemnification to the applicable section of the contract being submitted. Be sure to address the following:
- Borrower files for bankruptcy;
  - 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.

- 5.6.2 Do you provide additional types of indemnification beyond borrower default (i.e., collateral, negligence, trade settlement, etc.)? Does your proposal include the provision of additional levels of indemnification? If so, describe in detail.
- 5.6.3 Do you have clients that you do not indemnify against borrower default? Does this have an impact on revenue sharing?
- 5.6.4 Assuming full indemnification for collateral reinvestment risk related to collateral investment in repurchase agreements, operational risk and borrower default indemnification, what are 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. Please provide an explanation of any scenario where you will not make a client whole on losses.
- 5.6.5 Does the securities lending agreement specifically provide cash or securities in the event of a borrower default? If securities, are you responsible for re-purchasing loaned securities in the market after a borrower default, and what is the contractual timetable for doing so? Who bears the cost associated with security re-purchases?
- 5.6.6 If you offer indemnifications, what changes to this policy do you foresee as a result of any pending regulations? Do you foresee proposing any fee increases or adjusted program splits if pending regulation makes it more expensive to offer indemnification?
- 5.6.7 Please indicate who backs the indemnity provided to your clients and provide the following information related to this entity:
- a. Credit rating;
  - b. Tier 1 capital ratio;
  - c. Tier 2 capital ratio; and
  - d. Leverage ratio;
- 6.6.8 Please provide the specific indemnity language for each type of indemnification you are offering with your bid. How do your firm's indemnifications differentiate it from your competition?

## 5.7 **SECURITIES LENDING PROGRAM PROFILE**

- 5.7.1 Please provide the information in the tables below. In addition, please describe the characteristics of the reinvestment portfolio and the investment parameters that contributed to the reinvestment spread for each of the periods.

Calendar Year 2017

<b>Asset Classes</b>	<b>Daily Avg. Lendable Base (\$ in m)</b>	<b>Utilization Rate (%)</b>	<b>Gross Spread (bps)</b>	<b>Intrinsic Spread (bps)</b>	<b>Reinvestment Spread (bps)</b>
U.S. Treasuries					
U.S. Agencies					
Corporates					
Non-corporate fixed income					
U.S. Equities					
International Equities (please list by country)					

Calendar year 2016

<b>Asset Classes</b>	<b>Daily Avg. Lendable Base (\$ in m)</b>	<b>Utilization Rate (%)</b>	<b>Gross Spread (bps)</b>	<b>Intrinsic Spread (bps)</b>	<b>Reinvestment Spread (bps)</b>
U.S. Treasuries					
U.S. Agencies					
Corporates					
Non-corporate fixed income					
U.S. Equities					
International Equities (please list by country)					

Calendar year 2015

<b>Asset Classes</b>	<b>Daily Avg. Lendable Base (\$ in m)</b>	<b>Utilization Rate (%)</b>	<b>Gross Spread (bps)</b>	<b>Intrinsic Spread (bps)</b>	<b>Reinvestment Spread (bps)</b>
U.S. Treasuries					
U.S. Agencies					
Corporates					
Non-corporate fixed income					
U.S. Equities					
International Equities (please list by country)					

5.7.2 Please provide your market share in each of the asset classes above, and indicate the source of the information.

## **5.8 SECURITIES LENDING PROCESS AND LIMITS**

5.8.1 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.

5.8.2 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?

5.8.3 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.

5.8.4 What types of limits or restrictions can be automated by your lending system (e.g. by security, by market cap, by short interest percent)?

5.8.5 Describe your queuing or loan allocation system in detail. Do you provide equal opportunity to all participating clients to lend their securities? Is the queue pro-rated? 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.

5.8.6 In adding new clients to your program, how do you ensure that the additional lendable assets do not have the impact of diluting utilization and/or earnings for existing clients?

5.8.7 What is your process for allocating specials to a borrower when multiple lenders have the security available to lend?

5.8.8 Do you have 24-hour lending capabilities? If not, please describe during which hours you operate.

5.8.9 Are you able to monitor for "borrowing to manipulate a proxy" within your program? Please describe for both domestic and international markets.

5.8.10 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.

5.8.11 Please describe your views or philosophies on the trade-offs between program size and utilization rates.

5.8.12 How often and in what asset classes are you generally faced with greater security supply than demand?

## **5.9 SECURITIES LENDING OPERATIONAL PROCEDURES**

5.9.1 Does your firm currently have a relationship with State Street as custodian? If so, for how many clients and what is the lendable asset base?

5.9.2 Does your firm have an executed "Third Party Lending Operational Procedures" Agreement between your client(s), State Street and your firm? Did your firm require any modifications to the standard agreement? If so, please describe the nature of the required modifications in detail.

5.9.3 Please describe any operational difficulties your firm has encountered with State Street as custodian in detail.

5.9.4 How do you manage the coordination of trade settlements, corporate actions, dividend collection, etc. with State Street? Do you provide guarantees?

5.9.5 How much notice do you typically need in order to recall securities? How often do you encounter problems recalling securities by the target date? Describe your ability to reallocate loans. What specifically differentiates your firm from its competition in managing sell fails.

5.9.6 What vendors/sources are used for pricing? Are loaned assets and collateral priced daily?

## **5.10 SECURITIES LENDING REPORTING**

5.10.1 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? Is the data as of the previous business day or real time? How much report format flexibility is available? Are custom reports available?

5.10.2 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.

5.10.3 Does the firm provide an attribution analysis for its securities lending program? If so, please describe.



5.10.4 Please describe the audit trail process provided to your securities lending clients.

5.10.5 How do you support GASB reporting requirements?

## **5.11 SECURITIES LENDING SYSTEMS AND TECHNOLOGY**

5.11.1 Do you have an Internet based auction lending capability? If so, describe, including inception, extent of applications, competitive bidding process, etc.

5.11.2 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(s)? Is the system only for the lending business?

5.11.3 Describe your business continuity and disaster recovery plans. Has your business ever experienced any business continuity issues related to securities lending? If so, please provide details. What will be the expected recovery times and service level for critical securities lending services in the case of a major disaster? How often are the plans tested?

## **5.12 CONVERSION**

5.12.1 Please provide a detailed conversion timeline including, but not limited to your approach for novating loans.

## **5.13 FEES**

5.13.1 Explain your methodology for calculating a client's income and the proposed income split. Show sample calculations.

5.13.2 Do you guarantee income? If yes, in what circumstances?

5.13.3 Do you charge a management fee (bps) for collateral reinvestment? If so, specify the fee.

5.13.4 Would you agree to a fee arrangement wherein you share only in the intrinsic revenue and not reinvestment income if you do not manage the cash collateral?

5.13.5 What is your organization's standard revenue sharing arrangement (principal) and the standard split of security lending income?

**5.14 SECURITIES LENDING REVENUE PROPOSAL**

5.14.1 Provide five (5) estimates of your program's securities lending program revenue using assets held as of December 31, 2017 as shown in Exhibit 2. The tables in Exhibit 2 should be prepared for each of the three collateral reinvestment options in Section 3.1.9 and prepared on a look back basis utilizing the trailing twelve months from December 31, 2017. Revenue options #3 – 5 should be prepared using a weighted average maturity for the collateral portfolio of 60 days and a maximum security maturity of 13 months for the portion of the portfolio that is assumed to be managed by the agent.

List significant assumptions or comments that impact your lending estimate. What is the assumption on the lender risk weighting (RWA) and how would the revenue projections in each of the three scenarios be impacted by a change in the RWA.

5.14.2 Please explain the methodology used for calculating the securities lending revenue. Please provide an example.

**5.15 PRICE SCHEDULE**

The Bidder must submit its pricing using the format set forth in the State-supplied price schedules accompanying this RFP. Failure to submit all information required may result in the proposal being considered non-responsive. Each Bidder is required to hold its prices firm through award of the Contract and shall not increase such prices during the term of the Contract.

**Proposal prices must be typed or written in ink. Any price change (including “white-outs”) must be initialed.**

## **6.0 TERMS AND CONDITIONS**

### **6.1 ENTIRE AGREEMENT; PRECEDENCE OF CONFLICTING TERMS**

- 6.1.1 The Contract awarded as a result of this RFP shall consist of the Securities Lending Agreement, the Third Party Lending Operational Procedures Agreement, this RFP (including the Standard Terms & Conditions as modified in Section 6.15 of this RFP), any Addenda to this RFP, Contractor's proposal, Contractor's best and final offer, and DOI's Notice of Award.
- 6.1.2 Unless specifically stated within this RFP, the Modifications and Changes to the Standard Terms & Conditions (as contained in Section 6.15 of this RFP) take precedence over the Standard Terms & Conditions accompanying this RFP.
- 6.1.3 In the event of a conflict between the provisions of the Securities Lending Agreement, the Third Party Lending Operational Procedures Agreement, this RFP (including the Standard Terms & Conditions as modified in Section 6.15 of this RFP), any Addenda to this RFP, Contractor's proposal, and Contractor's best and final offer, the order of precedence from most controlling to least shall be the following: the Securities Lending Agreement, the Third Party Lending Operational Procedures Agreement, any Addendum to the RFP, the RFP (including the Standard Terms & Conditions as modified in Section 6.15 of this RFP), Contractor's best and final offer, and Contractor's proposal.

### **6.2 CONTRACT TERM AND EXTENSION OPTION**

- 6.2.1 The term of the resulting Contract(s) correspond to the term of the Global Custody Agreement dated as of July 1, 2017 between the Treasurer of the State of New Jersey and State Street Bank and Trust Company, which agreement is currently scheduled to expire on June 30, 2022. The anticipated "Contract Effective Date" is provided on the signatory page accompanying this RFP. If delays in the procurement process result in a change to the anticipated Contract Effective Date, the Bidder agrees to accept a contract through June 30, 2022.
- 6.2.2 The contract may be extended for two (2) additional periods of up to one (1) year each, by the mutual written consent of the Contractor and the Director at the same terms, conditions, and pricing at the rates in effect in the last year of the contract or rates more favorable to the State.

### **6.3 CONTRACT TRANSITION**

In the event that a new contract has not been awarded prior to the contract expiration date, as may be extended herein, it shall be incumbent upon the Contractor to continue the contract under the same terms and conditions until a new contract can be completely operational. At no time shall this transition period extend more than one year beyond the expiration date of the contract.

#### **6.4 CONTRACT AMENDMENT**

Any changes or modifications to the terms of the contract shall be valid only when they have been reduced to writing and signed by the Contractor and the Director.

#### **6.5 CONTRACTOR RESPONSIBILITIES**

6.5.1 The Contractor shall have sole responsibility for the complete effort specified in the contract. Payment will be made only to the Contractor. The Contractor shall have sole responsibility for all payments due any subcontractor.

6.5.2 The Contractor is responsible for the professional quality, technical accuracy and timely completion and submission of all deliverables, services or commodities required to be provided under the contract. The Contractor shall, without additional compensation, correct or revise any errors, omissions, or other deficiencies in its deliverables and other services. The approval of deliverables furnished under this contract shall not in any way relieve the Contractor of responsibility for the technical adequacy of its work. The review, approval, acceptance or payment for any of the services shall not be construed as a waiver of any rights that DOI may have arising out of the Contractor's performance of this contract.

#### **6.6 OWNERSHIP OF MATERIAL**

6.6.1 All data, technical information, materials gathered, originated, developed, prepared, used or obtained in the performance of the contract, including, but not limited to, all reports, surveys, plans, charts, literature, brochures, mailings, recordings (video and/or audio), pictures, drawings, analyses, graphic representations, software computer programs and accompanying documentation and print-outs, notes and memoranda, written procedures and documents, regardless of the state of completion, which are prepared for or are a result of the services required under this contract shall be and remain the property of DOI and shall be delivered to DOI upon thirty (30) days notice by DOI. With respect to software computer programs and/or source codes developed for DOI, the work shall be considered "work for hire," i.e., DOI, not the Contractor or subcontractor, shall have full and complete ownership of all software computer programs and/or source codes developed. To the extent that any of such materials may not, by operation of the law, be a work made for hire in accordance with the terms of this contract, the Contractor or subcontractor hereby assigns to the State all right, title and interest in and to any such material, and the State shall have the right to obtain and hold in its own name and copyrights, registrations and any other proprietary rights that may be available.

6.6.2 Should the Bidder anticipate bringing pre-existing intellectual property into the project, the intellectual property must be identified in the proposal. Otherwise, the language in the first paragraph of this section prevails. If the Bidder identifies such intellectual property ("Background IP") in its proposal, then the Background IP owned by the Bidder on the date of the contract, as well as any modifications or adaptations thereto, remain the property of the Bidder. Upon contract award, the Bidder or Contractor shall grant the State a non-exclusive, perpetual royalty free license to use

any of the Bidder/Contractor's Background IP delivered to the State for the purposes contemplated by the contract.

## **6.7 SECURITY AND CONFIDENTIALITY**

### **6.7.1 DATA CONFIDENTIALITY**

All financial, statistical, personnel, customer and/or technical data supplied by DOI to the Contractor are confidential. The Contractor must secure all data from manipulation, sabotage, theft or breach of confidentiality. The Contractor is prohibited from releasing any financial, statistical, personnel, customer and/or technical data supplied by DOI that is deemed confidential. Any use, sale, or offering of this data in any form by the Contractor, or any individual or entity in the Contractor's charge or employ, will be considered a violation of this contract and may result in contract termination and the Contractor's suspension or debarment from State contracting. In addition, such conduct may be reported to the State Attorney General for possible criminal prosecution.

The Contractor shall assume total financial liability incurred by the Contractor associated with any breach of confidentiality.

### **6.7.2 SECURITY STANDARDS**

6.7.2.1 Contractor shall maintain network security that, at a minimum, includes: network firewall provisioning, intrusion detection and prevention, vulnerability assessments and regular independent third party penetration testing. Contractor shall maintain network security that conforms to current standards set forth and maintained by the National Institute of Standards and Technology (NIST), including those at:

<http://web.nvd.nist.gov/view/ncp/repository>

or any recognized comparable security standard that Contractor then applies to its own infrastructure. Industry standards such as ISO 27002, PCI Data Security Standard and ISF Standard of Good Practice, align with security best practices from SANS and CISecurity.

6.7.2.2 Contractor shall protect and maintain the security of data in accordance with generally accepted industry practices.

6.7.2.3 Data usage, storage, and protection are subject to any applicable federal and state regulatory requirements.

6.7.2.4 Contractor shall only transmit or exchange DOI data with other parties when expressly requested in writing and permitted by and in accordance with requirements of DOI. Contractor shall only transmit or exchange data with DOI or other parties through secure means supported by current technologies.

6.7.2.5 All provisions applicable to data include data in any form of transmission or storage, including but not limited to: database files, text files, backup files, log files, XML files, and printed copies of the data.

6.7.2.6 All DOI-provided data shall be used expressly and solely for the purposes enumerated in the Contract. Data shall not be distributed, repurposed or shared across other applications, environments, or business units of Contractor. No DOI-provided data of any kind shall be transmitted, exchanged or otherwise passed to other Contractors or interested parties (other than DOI's custodian) except on a case-by-case basis as specifically agreed to in writing by the DOI Contract Manager.

6.7.2.7 Contractor shall comply with all applicable State and Federal laws that require the notification of individuals in the event of unauthorized release of personally identifiable information or other event requiring notification. In the event of a breach of any of Contractor's security obligations or other event requiring notification under applicable law ("Notification Event"), Contractor shall assume responsibility for informing the DOI Contract Manager and all such individuals in accordance with applicable law and to indemnify, hold harmless and defend the State (including but not limited to DOI), its officials, and employees from and against any claims, damages, or other harm related to such Notification Event.

## **6.8 NEWS RELEASES**

The Contractor is not permitted to issue news releases pertaining to any aspect of the services being provided under this contract without the prior written consent of the Director.

## **6.9 ADVERTISING**

The Contractor shall not use the State's name, logos, images, or any data or results arising from this contract as a part of any commercial advertising without first obtaining the prior written consent of the Director.

## **6.10 LICENSES AND PERMITS**

The Contractor shall obtain and maintain in full force and effect all required licenses, permits, and authorizations necessary to perform this contract. The Contractor shall, upon request, supply the DOI Contract Manager with evidence of all such licenses, permits and authorizations. All costs associated with any such licenses, permits and authorizations must be considered by the Bidder in its proposal.

## **6.11 CLAIMS AND REMEDIES**

### **6.11.1 CLAIMS**

All claims asserted against the State (including DOI) by the Contractor shall be subject to the New Jersey Tort Claims Act, N.J.S.A. 59:1-1, et seq., and/or the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1, et seq.

### **6.11.2 REMEDIES**

Nothing in the contract shall be construed to be a waiver by the State (including DOI) of any warranty, expressed or implied, of any remedy at law or equity, except as specifically and expressly stated in a writing executed by the Director.

### **6.12 REMEDIES FOR FAILURE TO COMPLY WITH MATERIAL CONTRACT REQUIREMENTS**

In the event the Contractor fails to comply with any material contract requirements, the Director may take steps to terminate the contract in accordance with the Standard Terms & Conditions, authorize the delivery of contract items by any available means, with the difference between the price paid and the defaulting Contractor's price either being deducted from any monies due the defaulting Contractor or being an obligation owed the State by the defaulting Contractor as provided for in the State administrative code, or take any other action or seek any other remedies available at law or in equity.

### **6.13 ADDITIONAL WORK AND/OR SPECIAL PROJECTS**

- 6.13.1 The Contractor shall not perform additional work or special projects without first obtaining written approval from both the DOI Contract Manager and the Director.
- 6.13.2 In the event of additional work and/or special projects, the Contractor must present a written proposal to perform the additional work to the DOI Contract Manager. The proposal should provide justification for the necessity of the additional work. The relationship between the additional work and the base contract work must be clearly established by the Contractor in its proposal.
- 6.13.3 The Contractor's written proposal must provide a detailed description of the work to be performed, broken down by task and subtask. The proposal should also contain details on the level of effort, including hours, labor categories, etc., necessary to complete the additional work.
- 6.13.4 The written proposal must detail the cost necessary to complete the additional work in a manner consistent with the contract. Whenever possible, the price schedule should be a firm, fixed price to perform the required work. A payment schedule, tied to successful completion of tasks and subtasks, must be included.
- 6.13.5 Upon receipt and approval of the Contractor's written proposal, the DOI Contract Manager shall forward it to the Director for the Director's written approval.
- 6.13.6 No additional work and/or special project may commence without the Director's written approval. In the event the Contractor proceeds with additional work and/or special projects without the Director's written approval, it shall be at the Contractor's sole risk. DOI shall be under no obligation to pay for work performed without the Director's written approval.

**6.14 ORGAN DONATIONS**

Pursuant to N.J.S.A. 52:32-33, Contractors are encouraged to notify their employees, through information and materials or through an organ and tissue awareness program, of organ donation options. The information provided to employees shall be prepared in collaboration with the organ procurement organizations designated pursuant to 42 U.S.C. §1320b-8 to serve in this State.

NOTE: Selected bidders will be required to register with the State's centralized accounting system through NJStart in order to be paid. Vendors not already registered may do so at:

<https://www.njstart.gov/bs/>

**6.15 MODIFICATIONS AND CHANGES TO THE STANDARD TERMS & CONDITIONS**

6.15.1 The third, fourth and fifth sentences of Section 1 of the Standard Terms & Conditions are deleted and replaced with the following sentence:

“In the event that the Bidder/offeree would like to present terms and conditions that are in conflict with either these terms and conditions or those set forth in the RFP, the Bidder/offeree must present those conflicts during the Question and Answer period or during negotiations for the State to consider.”

6.15.2 The final sentence of Section 1 of the Standard Terms & Conditions is deleted and replaced with the following sentence:

“Nothing in these terms and conditions shall prohibit the Director of the Division of Investment (Director) from amending a contract when the Director determines it is in the best interest of the State.”

6.15.3 Section 4.2 of the Standard Terms & Conditions regarding insurance is modified by:

(i) modifying the Certificate Holder to read:

State of New Jersey, Department of the Treasury  
Division of Investment  
P.O. Box 290  
Trenton, New Jersey 08625

(ii) amending the e-mail address for certificates and notices of cancellation to read:

doi@treas.nj.gov

and (iii) adding the following section regarding professional liability insurance:



“Professional Liability Insurance: Contractor shall carry Errors and Omissions, Professional Liability Insurance and/or Professional Liability Malpractice Insurance sufficient to protect Contractor from any liability arising out the professional obligations performed pursuant to the requirements of the Contract. The insurance shall be in the amount of not less than \$10,000,000 and in such policy forms as shall be approved by DOI. If Contractor has claims-made coverage and subsequently changes carriers during the term of the Contract, it shall obtain from its new Errors and Omissions, Professional Liability Insurance and/or Professional Malpractice Insurance carrier an endorsement for retroactive coverage to the date of Contract commencement.”

- 6.15.4 References to the “Director” within the Standard Terms & Conditions shall mean the Director of DOI and references to the “State Contract Manager” within the Standard Terms & Conditions shall mean the DOI Contract Manager.

## **7.0 PROPOSAL EVALUATION**

### **7.1 RIGHT TO WAIVE**

The Director reserves the right to waive minor irregularities or omissions in a bid proposal. The Director also reserves the right to waive a requirement provided that:

- A. the requirement is not mandated by law;
- B. all the otherwise responsive proposals failed to meet the requirement; and
- C. in the sole discretion of the Director, the failure to comply with the requirement does not materially affect the procurement or the State's interests associated with the procurement.

### **7.2 RIGHT TO REJECT OR AWARD IN PART**

The Director reserves the right to reject any or all proposals, or to award in whole or in part, if the Director deems it to be in the best interest of the State to do so. Notice of such a rejection shall be posted on the DOI website, <http://www.state.nj.us/treasury/doinvest/rfp.shtml>.

### **7.3 RIGHT TO INSPECT BIDDER'S FACILITIES**

The Director reserves the right to inspect, or to direct an employee or member of the Selection Committee to inspect, the Bidder's establishment before making an award, for the purposes of ascertaining whether the Bidder has the necessary facilities for performing the Contract.

### **7.4 RIGHT TO REQUEST FURTHER INFORMATION**

7.4.1 The Director reserves the right to request all information which may assist him or her in making a contract award, including factors necessary to evaluate the Bidder's financial capabilities to perform the Contract.

7.4.2 The Director reserves the right to request a Bidder to explain, in detail, how the proposal price was determined.

7.4.3 The Director reserves the right to consult with clients of the Bidder during the evaluation of bids.

### **7.5 SELECTION COMMITTEE**

Proposals shall be evaluated by a Selection Committee composed of members of DOI staff and/or other State employees. The Director may also recommend technical advisors, including members of the Investment Policy Committee of the Council, DOI employees, consultants, and/or attorneys to assist the Selection Committee.

## **7.6 ORAL PRESENTATIONS AND/OR DEMONSTRATIONS**

- 7.6.1 After the submission of proposals, unless requested by DOI as noted below, contact between DOI staff and any Bidder or its employees/representatives regarding the RFP is still not permitted.
- 7.6.2 After the proposals are reviewed, a Bidder may be asked to clarify certain aspects of its proposal. The process of clarification is not an opportunity for the Bidder to revise or modify its proposal, and any response or portion of a response by the Bidder to a request for clarification that attempts to revise or modify its proposal shall be given no effect.
- 7.6.3 The Bidder may be required to give an oral presentation to the Selection Committee concerning its proposal. The Selection Committee may request the Bidder to provide a demonstration of the Bidder's systems. Bidders may not attend the oral presentations or demonstrations of their competitors.
- 7.6.4 It is within the Director's discretion whether to request a Bidder to clarify its proposal or to give an oral presentation. Such a request should not be construed to imply acceptance or rejection of a proposal.

## **7.7 EVALUATION CRITERIA**

- 7.7.1 All proposals will be reviewed to determine responsiveness. Non-responsive proposals will be rejected without evaluation. Responsive proposals will be evaluated by the Selection Committee.
- 7.7.2 Responses/proposals may be eliminated for failing to meet the minimum qualifications and screening criteria listed in Section 1.3 above. A Bidder with a history of performance problems, as demonstrated by formal complaints and/or cancellations of contracts for cause, may also be eliminated from consideration for an award under this RFP.
- 7.7.3 The following evaluation criteria categories, separate or combined in some manner, and not necessarily listed in order of significance, will be used to evaluate proposals received in response to this RFP. The evaluation criteria categories may be used to develop more detailed evaluation criteria to be used in the evaluation process:
- 7.7.3.1. The qualifications and experience of the Bidder's management, supervisory, or other key personnel assigned to the Contract, with emphasis on documented experience in successfully completing work on contracts requiring services of similar size and scope.
  - 7.7.3.2. The Bidder's documented experience in successfully completing contracts requiring services of similar size and scope to the work required by this RFP.
  - 7.7.3.3. Ability of the Bidder to mobilize, undertake and successfully complete the services required by this RFP.

- 7.7.3.4 The ability of the Bidder to manage a securities lending program that provides incremental revenue within the parameters of the guidelines, while balancing investment risk.
- 7.7.3.5 The ability of the Bidder to provide safety of principal while earning a positive spread to the rebate rate on securities lent.

## **7.8 PRICING DISCREPANCIES**

- 7.8.1 If, during the proposal evaluation process, it is discovered that there is an arithmetic disparity between the unit price and the total extended price, the unit price shall prevail. In the event of such disparity, the Director will request, in writing, confirmation by the Bidder of the revised total extended price. The Bidder will have five (5) business days after receipt of the request to confirm the price. If the Bidder fails to respond, its proposal shall be considered withdrawn, and no further consideration shall be given to it. The Bidder may only confirm and may not modify or amend its price. The Director shall determine whether any intended confirmation is a modification or amendment.
- 7.8.2 If any other obvious pricing error is found, the Director shall issue written request for confirmation to the Bidder. The Bidder will have five (5) business days after receipt of the request to confirm its pricing. If the Bidder fails to respond, its proposal shall be considered withdrawn, and no further consideration shall be given to it. The Bidder may only confirm and may not modify or amend its price. The Director shall determine whether any intended confirmation is a modification or amendment.
- 7.8.3 If there is an ambiguity in the pricing, other than a disparity between the unit price and extended price or other obvious pricing error, and the Bidder's intention is not readily discernible from other parts of the proposal, the Director shall issue a written request for clarification to the Bidder. The Bidder will have five (5) business days after receipt of the request to clarify its pricing. If the Bidder fails to respond, its proposal shall be considered withdrawn, and no further consideration shall be given to it. The Bidder may only clarify and may not modify or amend its price. The Director shall determine whether any intended clarification is a modification or amendment.

## **7.9 NEGOTIATION AND BEST AND FINAL OFFER (BAFO)**

- 7.9.1 After evaluating proposals, DOI may enter into negotiations with one Bidder or multiple Bidders. The primary purpose of negotiations is to maximize the State's ability to obtain the best value based on the mandatory requirements, evaluation criteria, and cost. Multiple rounds of negotiations may be conducted with one Bidder or multiple Bidders. Negotiations will be structured by DOI to safeguard information and ensure that all Bidders are treated fairly.
- 7.9.2 Similarly, the Division may invite one (1) Bidder or multiple Bidders to submit a best and final offer (BAFO). The invitation will establish the time and place for submission

of the BAFO. Any BAFO that is not equal to or lower in price than the pricing offered in the Bidder's original proposal will be rejected as non-responsive, and DOI will revert to consideration and evaluation of the Bidder's original pricing.

7.9.3 If required, after review of the BAFO(s), clarification may be sought from the Bidder(s). DOI may conduct more than one round of negotiation and/or BAFO in order to attain the best value for the State.

7.9.4 **Negotiations will be conducted only in those circumstances where they are deemed by DOI or the Director to be in the State's best interests and to maximize the State's ability to obtain the best value. Therefore, the Bidder is advised to submit its best technical and price proposal in response to this RFP since DOI may, after evaluation, make a contract award based on the content of the initial submission without further negotiation with and/or BAFO from any Bidder.**

#### **7.10 PROPOSAL RECOMMENDATION**

7.10.1 After evaluation of proposals and as applicable, negotiation(s) and/or BAFO(s), the Selection Committee will recommend to the Director the responsible Bidder(s) whose proposal(s), conforming to the RFP, is/are most advantageous to the State, price and other factors considered. The Director may accept, reject or modify the recommendation of the Selection Committee. The Director may initiate additional negotiation or BAFO procedures with the selected Bidder(s).

7.10.2 Until a Notice of Intent to Award the Contract is issued, all contacts, records of initial evaluations, any correspondence with Bidders related to any request for clarification, negotiation or BAFO, any revised technical and/or price proposals, the Selection Committee Report, and the Award Recommendation will remain confidential.

## **8.0 CONTRACT AWARD**

### **8.1 DOCUMENTS REQUIRED BEFORE CONTRACT AWARD**

#### **8.1.1 AGREEMENTS**

8.1.1.1 The DOI and the successful Bidder shall enter into a Securities Lending Agreement. The Bidder shall propose any exceptions to the Standard Terms & Conditions and/or the requirements of this RFP during the Question and Answer Period or during negotiations prior to contract award. The negotiated terms and conditions may not conflict with any of the material terms and conditions as set forth in the RFP.

8.1.1.2 The Bidder shall enter into a Third Party Lending Operational Procedures Agreement with the DOI and its custodian.

#### **8.1.2 POLITICAL CONTRIBUTION DISCLOSURES**

8.1.2.1 The State shall not enter into a contract with a Bidder that has solicited or made certain political contributions or payments to political parties during certain specified time periods. These prohibitions are set forth in P.L. 2005, Chapter 51, Executive Order No. 117 (2008), P.L. 2005, Chapter 271, and N.J.A.C. 17:16-4.

8.1.2.2 Pursuant to P.L. 2005, Chapter 271, at least ten (10) days prior to contract award, the Bidder shall complete and submit the attached Vendor Certification and Political Contribution Disclosure Form.

8.1.2.3 Pursuant to P.L. 2005, Chapter 51 and Executive Order No. 117 (2008), prior to the award of any contract, the Bidder shall complete and submit the attached Chapter 51 / Executive Order 117 Vendor Certification and Disclosure of Political Contributions form. Instructions for completing this form are available for review on the Division of Purchase & Property's website at:

<http://www.state.nj.us/treasury/doinvest/rfp.shtml>

8.1.2.4 Pursuant to N.J.A.C. 17:16-4, prior to engagement, the Bidder shall complete and submit a Disclosure Report of Political Contributions by Investment Management Firm. This form is available at:

<http://www.state.nj.us/treasury/doinvest/rfp.shtml>

### **8.1.3 SOURCE DISCLOSURE CERTIFICATION REQUIREMENTS**

8.1.3.1 Pursuant to N.J.S.A. 52:34-13.2, all services performed under a State contract or under any subcontract under the State contract shall be performed within the United States, except when it is certified in writing that a required service cannot be provided by a Contractor or subcontractor within the United States and the certification is approved by the State Treasurer. Refer to Section 3.6 of the Standard Terms & Conditions.

8.1.3.2 The Bidder shall disclose the location by country where services under the Contract, including subcontracted services, will be performed. If any of the services cannot be performed within the United States, the Bidder shall state with specificity the reasons why the services cannot be so performed. The Bidder shall use the attached Source Disclosure Certification form for this purpose.

### **8.1.4 AFFIRMATIVE ACTION**

8.1.4.1 Pursuant to N.J.S.A. 10:5-32, no contract shall be awarded to any Bidder which has not agreed and guaranteed to afford equal opportunity in performance of the contract and in accordance with an affirmative action program approved by the State Treasurer.

8.1.4.2 The intended awardee must submit a copy of a New Jersey Certificate of Employee Information Report, or a copy of Federal Letter of Approval verifying it is operating under a federally approved or sanctioned Affirmative Action program. Intended awardee(s) not in possession of either a New Jersey Certificate of Employee Information Report or a Federal Letter of Approval shall complete and submit the attached Affirmative Action Employee Information Report.

### **8.1.5 MACBRIDE PRINCIPLES**

The intended awardee shall certify that it either (1) has no business operations in Northern Ireland or (2) that it will take lawful steps in good faith to conduct any business operations they have in Northern Ireland in accordance with the MacBride principles of nondiscrimination in employment as set forth in Section 2 of P.L.1987, c.177 (N.J.S.A. 52:18A-89.5), and in conformance with the United Kingdom's Fair Employment (Northern Ireland) Act of 1989, and permit independent monitoring of their compliance with those principles. The intended awardee shall use the attached MacBride Principles Form for this purpose.

#### **8.1.6 BUSINESS REGISTRATION**

8.1.6.1 Pursuant to N.J.S.A. 52:32-44(b), a Bidder and its named subcontractors must have a valid Business Registration Certificate (“BRC”) issued by the Department of Treasury, Division of Revenue prior to the award of a contract. See Section 2.1 of the Standard Terms & Conditions.

8.1.6.2 Any Bidder, inclusive of any named subcontractors, who does not have a valid business registration at the time of the proposal submission opening or whose BRC was revoked prior to the submission of the proposal should proceed immediately to register its business or seek re-instatement of a revoked BRC. Bidders are cautioned that it may require a significant amount of time to secure the re-instatement of a revoked BRC. The process can require actions by both the Division of Revenue and the Division of Taxation. For this reason, a Bidder’s early attention to this requirement is highly recommended. The Bidder and its named subcontractors may register with the Division of Revenue, obtain a copy of an existing BRC or obtain information necessary to seek re-instatement of a revoked BRC online at:

<http://www.state.nj.us/treasury/revenue/busregcert.shtml>

8.1.6.3 A Bidder receiving a contract award as a result of this procurement and any subcontractors named by that Bidder will be required to maintain a valid business registration with the Division of Revenue for the duration of the Contract, inclusive of any contract extensions.

#### **8.1.7 INSURANCE CERTIFICATES**

Contractor shall provide DOI with current certificates of insurance for all coverages required by the terms of this contract, naming DOI as an Additional Insured. Refer to Section 4.2 of the Standard Terms & Conditions accompanying this RFP.

#### **8.1.87 NOTICE TO BIDDERS OF SET-OFF FOR STATE TAXES**

Pursuant to N.J.S.A. 54:49-19 and notwithstanding any provision of the law to the contrary, whenever any taxpayer, partnership, or S corporation under contract to provide goods or services or construction projects to the State of New Jersey or its agencies or instrumentalities, is entitled to payment for those goods and services at the same time a taxpayer, partner or shareholder of that entity is indebted for any State tax, the Director of the Division of Taxation shall seek to set off that taxpayer’s or shareholder’s share of the payment due the taxpayer, partnership, or S corporation. The amount set off shall not allow for the deduction of any expenses or other deductions which might be attributable to the taxpayer, partner or shareholder subject to set off under this act.



## **8.2 FINAL CONTRACT AWARD**

### **8.2.1 AWARD OR REJECTION OF PROPOSALS**

Contract award(s) shall be made with reasonable promptness by written notice to that responsible Bidder(s), whose proposal(s), conforming to this RFP, is(are) most advantageous to the State, price and other factors considered. Any or all proposals may be rejected when the Director determines that it is in the public interest to do so. The Director shall make his or her decision consistent with his or her fiduciary duties pursuant to N.J.S.A. 52:18A-89.

### **8.2.2 NOTICE OF INTENT TO AWARD; PROTESTS**

The Director shall post a Notice of Intent to Award on the DOI website. In the event that the Director determines that all proposals shall be rejected or no award shall be made, the Director shall post a notice of such determination on the DOI website. The DOI website is located at: [www.state.nj.us/treasury/doinvest/rfp.shtml](http://www.state.nj.us/treasury/doinvest/rfp.shtml).

A non-successful Bidder, within ten (10) business days following the Notice of Intent to Award, may submit a written protest. If a contract award is protested, DOI shall not award the contract in question until a final decision is rendered on the merits of the protest, unless the Director finds that the failure to award the contract will result in substantial cost to the State or that public exigency so requires. In such event, DOI shall notify all interested parties.

Protests must be submitted to the Director, and must concern one or more of the following:

- a) Rejection of the Bidder's proposal for failing to meet the minimum qualifications and screening criteria listed in Section 1.3 above. Such protest may not challenge the validity of the requirements or criteria, but rather may assert that its proposal complied with such requirements or criteria; and/or
- b) Notice of intent to award contract(s) to another Bidder as part of the same procurement.

A protest shall contain the following:

- a) Identification of the particular procurement;
- b) The specific grounds for challenging the rejection of its proposal or the scheduled contract award, as applicable, including all arguments, materials and/or other documentation that may support the protester's position; and
- c) A statement as to whether the protester requests an opportunity for an in-person presentation and the reason(s) for the request.

The Director has sole discretion to determine if an in-person presentation by the protester is necessary to reach an informed decision on the protest. In-person presentations are fact-finding for the benefit of the Director, who has the discretion to limit attendance at an in-person presentation to those parties likely to be affected by the outcome of the protest.

The Director is entitled to request, receive, and review copies of any and all records and documents deemed appropriate and relevant to the issues and arguments set forth in the protest. Upon receipt of any such request, the Bidder shall promptly provide the requested records and documents in the time, place, and manner specified in the request. Failure to do so may constitute a reasonable basis for the Director to resolve the protest against the Bidder submitting the protest. The Director may also consider relevant information requested and received from other parties as he or she deems appropriate.

The Director may disregard any protest not containing all of the items set forth above or filed after the 10-day protest period.

The protest shall be resolved by written decision of the Director based on the Director's review of the written record including, but not limited to, the written protest, the terms, conditions and requirements of the RFP, the proposals submitted in response to the RFP, written reports and/or the award recommendation documents, pertinent administrative rules, statutes, and case law, and any associated documentation deemed appropriate. In cases where no in-person presentation is held, such review of the written record shall, in and of itself, constitute an informal hearing.

The Director may designate someone, from within or outside DOI, to perform a review of the written record and conduct an in-person presentation. In the case of a review or in-person presentation being handled by a reviewer from outside DOI, the determination of such designee shall be in the form of a report to the Director, which shall not be binding on the Director but rather advisory in nature. The protesting party shall receive a copy of the reviewer's report and shall have a period of ten (10) business days to provide written comments or exceptions to the report to the Director.

The Director shall make a final written decision on the protest.

Protests are not contested cases subject to the requirements of the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq., and the Uniform Administrative Procedure Rules, N.J.A.C. 1:1. Final agency determinations by the Director on protests are appealable to the Appellate Division of the Superior Court of New Jersey.

## **9.0 CONTRACT ADMINISTRATION**

### **9.1 CONTRACT MANAGER**

The DOI Contract Manager is the DOI employee responsible for the overall management and administration of the Contract, including directing Contractor to perform the work of the Contract and resolving minor disputes between Contractor and DOI.

The DOI Contract Manager for the Contract will be identified when the Contract is awarded. At that time, Contractor will be provided with the DOI Contract Manager's name, address, telephone number, and e-mail address. The DOI Contract Manager is the person that Contractor will contact after the Contract is executed for answers to any questions and concerns about any aspect of the Contract.

Exhibit 1  
**PRICE SCHEDULE**

The Bidder should complete all pages of this Price Schedule. The Bidder should not leave cells blank, but rather utilize “N/C” (No Charge) if applicable.

Refer to RFP Section 3.0 Scope of Work for task requirements and deliverables and RFP Sections 5.15 for additional information regarding this Price Schedule.

1. Please provide the proposed revenue split for each of three collateral reinvestment options in Section 3.1.9 assuming the following:

Collateral reinvestment program	Agent (%)	Lender (%)
1. Agent invests 100% of the collateral portfolio in repurchase agreements in accordance with Section 3.1.9(a)		
2. Agent invests a specified portion of the collateral in repurchase agreements in accordance with Section 3.1.9(a) (please specify the optimal % proposed to be invested by the agent and the % proposed to be invested by the lender given the reinvestment guidelines): a. Split of intrinsic revenue b. Split of reinvestment revenue earned on the collateral portfolio invested by the agent c. Split of reinvestment revenue earned on the collateral portfolio invested by the lender d. Other proposed split (please detail)		
3. Agent invests 100% of the collateral portfolio in accordance with Section 3.1.9(b)		
4. Agent invests a specified portion of the collateral in accordance with Section 3.1.9(b) (please specify the optimal % proposed to be invested by the agent and % proposed to be invested by the lender given the reinvestment guidelines): a. Split of intrinsic revenue b. Split of reinvestment revenue earned on the collateral portfolio invested by the agent c. Split of reinvestment revenue earned on the collateral portfolio invested by the lender d. Other proposed split (please detail)		
5. Agent invests 100% of the collateral portfolio in accordance with Section 3.1.9(c)		
6. Agent invests a specified portion of the collateral in accordance with Section 3.1.9(c) (please specify the optimal % proposed to be invested by the agent and %		

<p>proposed to be invested by the lender given the reinvestment guidelines):</p> <ul style="list-style-type: none"> <li>a. Split of intrinsic revenue</li> <li>b. Split of reinvestment revenue earned on the collateral portfolio invested by the agent</li> <li>c. Split of reinvestment revenue earned on the collateral portfolio invested by the lender</li> <li>d. Other proposed split (please detail)</li> </ul>		
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2. For each of the six proposed options above, please specify the detail of any indemnifications being offered for:
  - a. Borrower indemnifications
  - b. Operational indemnifications
  - c. Collateral indemnifications
3. List and briefly describe each and every additional fee that you propose that is not included in the revenue split calculation above.













Exhibit 3

SECURITIES LENDING COLLATERAL INVESTMENT GUIDELINES

I. INVESTMENT SUMMARY AND PORTFOLIO STRUCTURE

A. Safety of Principal

1. All credit restrictions and rating requirements pertain to the time of purchase.
2. If an investment undergoes a credit rating downgrade to a level below the allowable rating at time of purchase, the Agent shall notify Lender immediately of such a downgrade, and propose a recommended course of action. Lender shall provide written instructions to the Agent, as to the required course of action.
3. All investments made in the Lender's collateral portfolio shall be segregated from the investments made on behalf of other clients of Agent, unless otherwise instructed and agreed to by the Lender.

B. Liquidity

1. Assets should be held until maturity under usual circumstances, and after effecting admissions and withdrawals, not less than 10 percent of the total collateral portfolio shall be composed of cash and cash equivalent investments (including money market funds) which will mature on the next business day.
2. The weighted average maturity of the collateral portfolio should not exceed 90 days.
3. All investments in the collateral portfolio shall mature or are to be redeemed within thirteen months, with the exception of certificates of deposit which shall be limited to a term of one year or less. For floating rate notes, the ultimate maturity date shall be used for determining compliance with this requirement, and not the next interest reset date.

II. INVESTMENT DIVERSIFICATION AND RATINGS REQUIREMENTS

For purposes of this section, exposure to an issuer is defined to include the issuer itself, the issuer's parent company, the issuer's subsidiaries and any affiliated companies.

For purposes of these guidelines, the lowest prevailing rating of Moody's, S&P or Fitch shall be used in determining applicable issuer limits. If the issuer has a split rating

the lowest rating shall determine which limit category to use; as long as the issuer is rated by at least one agency, that “lowest” rating does not default to no rating.

For purposes of calculating an overall issuer limit, excluding any investments in U.S. Treasuries, U.S. Agencies guaranteed by the full faith and credit of the U.S. Government or repurchase agreements, exposure to any one issuer in the collateral portfolio rated AA- (or the equivalent) or higher cannot exceed more than 4% of the collateral portfolio at time of purchase. Exposure to any one issuer in the collateral portfolio rated A- (or the equivalent) or higher cannot exceed more than 2.5% of the collateral portfolio at time of purchase.

For U.S. Treasuries and for Government Agency obligations that are guaranteed by the full faith and credit of the U.S. Government, there are no limits by issuer.

For Repurchase Agreements (Section IV. D), the exposure to any one counterparty is limited to twenty percent (20%) of the collateral portfolio.

For Money Market Funds (Section IV. E), the total amount of shares or units purchased or acquired of any money market fund shall not exceed five percent of the shares or units outstanding of said money market fund.

The total amount directly invested in the fixed income obligations of any one issuer and affiliated entities (excluding the U.S. Government) shall not exceed five percent of the securities lending collateral portfolio.

### III. PROHIBITED INVESTMENTS

A. The collateral portfolio is not permitted to invest in the following:

1. Collateralized notes and mortgages
2. Securities issued pursuant to Section 4(2), Regulation D, Regulation S or Rule 144A under the securities Act of 1933, as amended which exceed \$1 billion in the aggregate
3. Liabilities of the securities lending agent or any of its affiliates unless specifically authorized in writing by the Division of Investment.
4. Any other security not explicitly approved as a permissible investment as permitted in Section IV.

### IV. PERMISSIBLE INVESTMENTS

Permissible investments will consist of fixed income securities and money market securities denominated in U.S. dollars as defined by the parameters of these guidelines.

If the investment is publicly traded, the issue must be registered with the Securities and Exchange Commission (“SEC”). The list of permissible investment is as follows:

A. Pursuant to N.J.A.C. 17:16-11 - United States Treasury and Government Agency Obligations.

1. United States Treasury Obligations.
2. United States Government Agency Obligations approved by the Director of the New Jersey Division of Investment (“Director”). The current approved list includes:
  - a. Federal Agricultural Mortgage Corporation
  - b. Federal Farm Credit Banks Consolidated Systemwide Bonds
  - c. Federal Home Loan Banks
  - d. Federal Home Loan Mortgage Corporation
  - e. Federal National Mortgage Association
  - f. National Credit Union Administration
  - g. Resolution Funding Corporation
  - h. Tennessee Valley Authority
  - i. United States Agency for International Development (USAID)
  - j. U.S. Small Business Administration
  - k. U.S. Department of Housing and Urban Development

B. Pursuant to N.J.A.C. 17:16-12 – Global Debt Obligations.

1. Only senior debt may be purchased.
2. The issue itself must be rated. The minimum rating requirement for all investments is A- (or the equivalent) at time of purchase.
3. Maturities of one year or less.
4. The issuer is not in default as to the payment of principal or interest upon any of its outstanding obligations. Subsequent to purchase, if the obligor defaults, the obligations do not have to be sold.
5. The obligor has market capitalization or contributed capital of at least \$100 million at the time of purchase.
6. The total amount of debt issues purchased or acquired of any one issuer shall not exceed five percent (5%) of the outstanding long term debt of the issuer.

C. Pursuant to N.J.A.C. 17:16-31 – Commercial Paper.

1. Maturity of the issue cannot exceed 270 days.
2. The issuer has a credit rating of P-1/A-1/F1 or higher at time of purchase by Moody's, S&P, or Fitch, respectively. The rating is defined as the lowest prevailing rating of Moody's, S&P or Fitch.

D. Pursuant to N.J.A.C. 17:16-32 – Certificates of Deposit

1. A term of 1 year or less.
2. If headquartered in the United States or if a United States subsidiary of a foreign bank, the issuer (or any parent bank or trust company whose full faith and credit is pledged to the issue):
  - (a) Is a member of the Federal Reserve System and Federal Deposit Insurance Corporation, and;
  - (b) Has a credit rating on its long-term and short-term deposits, respectively, of A3/P-1 or higher by Moody's, A-/A-1 or higher by S&P, or A-/F1 or higher by Fitch. Subsequent to purchase, if ratings fall below the minimum rating for such obligations, they do not have to be sold.
3. If headquartered outside of the United States, the issuer (or any parent bank or trust company, whose full faith and credit is pledged to the issue):
  - (a) Is headquartered in a country which has agreed to adhere to the international capital standards as stipulated in the Basel Accord, and;
  - (b) Has a credit rating on its long-term and short-term deposits, respectively, of Aa3/P-1 or higher by Moody's, AA-/A-1 or higher by S&P, or AA-/F1 or higher by Fitch. Subsequent to purchase, if ratings fall below the minimum rating for such obligations, they do not have to be sold.
4. At the time of purchase, the total investments in Certificates of Deposit cannot exceed 10 percent of issuer's primary capital.
5. The Certificate of Deposit must be in an amount of at least \$1 million.

6. The Bank or Trust company must be on a list approved by the Director. This list is attached herewith as Appendix X. Please note that the Approved List may be updated from time to time at the discretion of the Director.

E. Pursuant to N.J.A.C. 17:16-33 - Repurchase Agreements.

1. The seller is a bank or trust company or a wholly-owned subsidiary of such bank or trust company which:
  - (a) Is headquartered in the United States.
  - (b) Is a member of the Federal Reserve System, or;
2. The seller is a securities broker which:
  - (a) Is headquartered in the United States.
  - (b) Is registered with the SEC.
  - (c) Has a credit rating of P-1/A-1/F1 or higher at time of purchase by Moody's, S&P, or Fitch, respectively. The rating is defined as the lowest prevailing rating of Moody's, S&P or Fitch.
3. The seller demonstrates the capacity to wire collateral against payment through the Federal Reserve System to a designated custodian bank.
4. The maturity of repurchase agreements shall not exceed 30 days.
5. The market value of the securities delivered pursuant to the repurchase agreement shall be equal to at least 102 percent of the par value of the repurchase agreement. If the market value of the securities delivered pursuant to the repurchase agreement drops below 101 percent of the par value of the repurchase agreement, the seller must wire additional collateral against payment such that the market value of the securities shall be equal to at least 102 percent of the par value of the repurchase agreement.
6. The securities delivered shall have a maturity not exceeding 10 years from the date of the repurchase agreement.
7. The security sold by the bank or securities broker and subject to repurchase is:
  - (a) An obligation of the United States Government or an obligation of a United States Government Agency eligible for investment under N.J.A.C. 17:16-11.

- (b) Corporate Obligations with a credit rating of Aa3/AA-/AA- by Moody's, S&P, and Fitch, respectively, except that two out of three ratings is sufficient, and one of three ratings is sufficient if only one rating is available.

E. N.J.A.C. 17:16-37 – Money Market Funds

1. The money market fund must be in compliance with Rule 2a-7 under the Investment Company Act of 1940 as promulgated by the SEC.
2. The minimum net asset value must be at least \$1 billion at time of purchase. Subsequent to purchase, if the net asset value falls below \$1 billion, the investment does not have to be sold.
3. Not more than five percent (5%) of the market value of the collateral portfolio may be invested in money market funds;
4. Not more than 5% of the Units or Shares outstanding may be purchased or acquired of any one money market fund.
5. The money market funds must be approved by the Director in advance.

V. COMPLIANCE

Compliance shall be determined on a trade date basis. It is recognized that changes in collateral portfolio balances may result, temporarily, in situations where percentage limitations are exceeded. There will be a one-business day grace period on these situations that result from changes in these balances for open, or overnight, investments. Term investments may be carried to maturity, with no additions.