



Request for Proposal
Master Custody and Related Services
State of Rhode Island and Providence Plantations
Office of the General Treasurer
March 2012

Questions and Responses

The following questions were received from respondents. We appreciate respondents' input and consideration in this regard, as we move forward with next steps of the Master Custody RFP process. **As outlined in the original RFP, responsive proposals are due on or by Tuesday, April 10th, 2012 at 4:00 PM (EST) at the address provided in the RFP.**

(**NOTES:** Headings and any numbering below are incorporated for ease of reference only, and do not correspond directly to RFP headings/numbers nor to those from individual respondents. Information related to plan assets and other matters are generally reflective of current conditions, but may be subject to change at any time.)

ADMINISTRATION

1. Is there a required separate Rhode Island business license/registration/filing in order for a respondent to provide the services contemplated under this RFP? **There is no separate license or filing to provide the specific services contemplated under this RFP.**
2. Please provide a copy of the indemnification language in the contract. **The State follows a policy of reciprocal indemnification by the parties for negligence or willful misconduct and our contract language will reflect this policy.**
3. Does the pension asset pool support more than a single pension plan? **Yes. The pooled trust structure supports four (4) different pension plans, with asset values attributed proportionately to each plan.**
4. What investment guidelines does the plan have? **We have a comprehensive set of investment guidelines which govern each major aspect of the plan's overall asset allocation as well as specific investment manager engagements. These guidelines may be augmented or amended by the State Investment Commission and General Treasurer from time to time.**
5. Assuming a decision would be made on or by May 31, 2012, when would you anticipate conversion? **We are seeking, from each respondent, an indication of committed timeframes for potential conversion. That said, it would be ideal for conversion to take place for the beginning of our fiscal year, July 1, however, it should be no later than the beginning of the second quarter.**

BENEFIT PAYMENT AND PARTICIPANT-DIRECTED SERVICES

1. We have received several similar questions regarding required form(s) of and costs related to Benefit Payment Services. **At present, we do not anticipate the ongoing custodian services to include benefit plan payment services, so we are not providing participant level detail etc. at this time. However, please do provide information which would give us a summary-level understanding of your institutional capabilities and experiences in this regard.**

2. Does the State have a retiree call center? Web access? Etc.? **Yes. However, services related to the foregoing are beyond the current scope of what we are seeking from our custodian.**

PORTFOLIO COMPOSITION AND ACTIVITY

Assets – Composition and Activity Levels

1. What is the number of... (number of funds, not individual securities)?

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|----------------------------|--------------------|---------------------------------------|---|----------------------------|
| - Hedge fund holdings? | <i>Nineteen</i> | <i>LP interests in separate funds</i> | | |
| - Private equity holdings? | <i>Sixty-eight</i> | | “ | “ |
| - Real estate holdings? | <i>Sixteen</i> | | “ | “ , <i>direct RE funds</i> |

Transaction volumes for the foregoing, in terms of new fund investments or exits, would be envisioned to be low (several per year), but could increase at any time due to portfolio repositioning. Recurring activity for the latter two asset classes largely relates to capital calls, distributions and related matters, which are much more frequent in nature.

Pay-down (Withdrawal) Levels

2. What is the volume of pay-downs (withdrawals) for the portfolio per year? **While varying substantially, we tend to pay out approximately \$300 million per year currently from the fund.**

Structure of Selected Holdings

3. Are the pension assets and cash pool assets commingled? If not, please provide the number and type of accounts, as well as market values for each? **The pension fund currently holds ~ \$7.4 billion in assets. The short-term cash custody could range from \$200-\$800 million, however, due to the current market environment our cash funds are in investment vehicles that do not require custody services. Upon qualified participants' request (please refer to original RFP contact information), we will provide Supplemental Report A, which details last year's custodial activity for short-term funds.**

4. Please identify which of the accounts listed on page 17 (the Appendix) of the RFP are separately managed versus commingled? **The commingled assets, of those listed, are as follows:**

- **Passive domestic equities (two fund portfolios)**
- **Passive international equities (one fund portfolio)**
- **Hedge fund, private equity and real estate partnerships (see detail under (1) above)**

5. Please provide a detailed asset listing with market value by security, including security identifier, security type and market of settlement. **Upon qualified participants' request, we will provide Supplemental Report B, which addresses the foregoing.**

6. Please provide the names of investment managers. **Upon qualified participants' request, we will provide Supplemental Report B which addresses the foregoing.**
7. For any separately managed global assets, please provide market values by country. **Upon qualified participants' request, we will provide Supplemental Report B, which addresses the foregoing.**
8. Please provide annual transaction volumes, by country, including the US. **Upon qualified participants' request, we will provide Supplemental Report C (Parts 1, 2 & 3), which addresses the foregoing.**
9. Does the fund trade derivatives in any of the sub-portfolios? **At present, the only such holdings are in our asset overlay (rebalancing) account, where our provider utilizes highly-liquid derivatives and swaps to effect portfolio rebalancing goals on a synthetic basis.**

At February month-end, this represented positions in approximately twenty (20) different securities. Transaction volume varies significantly from month-to-month.

As with all other responses herein, it may be that – over time and ongoing – we and/or our external investment managers may engage in other swaps and derivatives activities on our plan's behalf, and as may be approved and implemented under our various policies and procedures.

10. What is the volume of repo activity and collateral postings? Do you have an active collateral management program in place? If so, how many related agreements do you have? **At the current time this is not applicable.**
11. Will the custodian be required to post any collateral to the State with respect to portfolio cash? **No.**
12. What is the expected average balance of cash in the short-term investment fund? Of this, how much is swept by the custodian's 'sweep vehicle'? **Currently there is no sweep or invested balance of the short-term fund under custodian control.**
13. What investment vehicles are you using for your short-term (cash) funds? **At this time most of our short-term investments are in collateralized deposits or money market funds.**
14. What is the average volume of wires per year? **Currently approximately 1200 wires per year.**

REPORTING

Compliance

1. Is ERSRI interested in compliance monitoring? **Yes; this reporting is a critical element of the master custody service and process. We are currently provided a monthly report.**

Risk Analytics & Related Forecasting

2. Are you interested in *ex ante* (predictive) risk analytics that provide 'what if' scenarios to stress test the portfolio assumptions? **We are, in general, very interested in risk and performance analytics from our custodian.**

We furthermore expect that certain 'baseline' analytics, whether *ex post* or *ex ante*, and which may include a variety of components, be provided through the basic master custodian agreement(s), particularly due to the custodian's immediate and ongoing access to portfolio information.

At the same time, we also realize that certain complex analytics that may be desirable to our Plan and to Treasury staff may be ancillary either to the custody process and/or to the core services addressed herein. We welcome information regarding such additional services, and can address these with respondent(s) at the appropriate time.

Therefore, we are very interested in respondents' identifying:

- That suite of risk & performance analytics included in such respondent's bid; AND
- That suite of additional analytics that may be provided as an add-on, and the attendant incremental cost of the latter, if any

3. Are you interested in tools for capital call forecasting? **Yes.**

4. Are you interested in tools for liquidity management related to hedge funds? **Yes. We would be interested to know of any services that respondents may provide in this regard.**

5. Are there any service gaps/concerns at the current provider that you wish to address in this RFP process? **We do not have any service gaps at present. We do wish to understand, however, any unique or proprietary value-added services that any respondent may feel is warranted for highlighting.**

General

5. What valuation frequency do you require? **Daily.**

6. On what business day do you require final audited accounting statements? **Not later than T + nine (T + 9) business days.**

7. If the Hybrid retirement plan reforms take effect in 2012, would the State require daily, unitized (Net-Asset-Value, NAV) valuation services as part of custody services (and fee quote)? If so, can you provide data on the number of investment managers and investment pools that would require daily NAV services? **We fully expect the defined-contribution (DC) element of the hybrid plan to take effect by June 30, 2012. We do not, however, expect the custodian to provide any periodic reporting related to the DC plan.**

8. Do you have any special customized reports that you construct internally (e.g. for Committee meetings, Board meetings, weekly reviews, etc) that you'd like the custodian to assist with or automate? **Yes. We have a variety of reports that we produce on a recurrent basis, and believe that the custodian's basic systems must be able to generate core elements of the necessary data. We may expect, in some instances, to have to do limited reformatting at the staff level.**

9. Do you have any financial or accounting systems for which you would like us to build a G/L interface? **While this is not presently envisioned, we would appreciate a summary-level understanding of your institutional capabilities and experiences in this regard.**

10. Do you have any unique processing requirements (cash movement, fund manager invoicing, etc) that are time consuming for your staff that you'd like the custodian to assist with or automate? **We are not sure that we have any unique needs *per se*, but – in conjunction with item number (7) above – we would like to understand respondents' general ability to meet periodic reporting needs of similar clients.**

11. Do you have any specialized financial or regulatory reporting needs? **Please see and address in similar fashion to items (7) and (9), above, with particular attention to large, multi-asset-class pension plan custody requirements, and in particular for a governmental (State) plan.**

CONFLICT(S) OF INTEREST

1. We have received questions regarding specific detail as to names of individuals at our Plan who would be involved in the RFP outcome decision(s). **We appreciate the attention to detail in this regard, and ask respondents to consider such potential conflicts as regards any interaction with members of the State Investment Commission, the State and its Offices in general, and/or Treasury staff members.**