

Request for Information
Global Securities Lending Services
Responses to Offeror Questions

1. If you are using a commingled fund does it have an Investment Manager fee?

Answer:

The System's collateral is pooled in a trust, the assets of which then are invested in a commingled fund. The commingled fund charges a management fee for the service. Going forward the System will consider a separate account structure.

2. Are you currently paying a management fee for cash investment?

Answer: Please see answer to question 1.

3. Is your agent currently using the investment guidelines attached in the RFI?

Answer:

No. The commingled fund is invested according to the guidelines, which were created by the trustee in developing the declaration of trust.

4. Please provide a detailed asset list in Excel containing shares, market value and security identifier (i.e. Cusip, SEDOL etc.).

Answer:

Please find a detailed listing of all publicly traded holdings the System had as of 03/31/17 posted separately on the same webpage as this response.

5. What types of non-cash collateral do you accept?

Answer:

The System currently accepts only T-Bills, Treasuries and US Agencies. The System may consider increasing the program's flexibility in this regard.

6. Are there any restrictions currently on the program that we should be aware of including borrower limits, asset restrictions and proxy recalls?

Answer:

There are no borrower limits stipulated at the moment. The System may reconsider and stipulate such limits. For example, the System may establish limits as percent of lendable assets borrowed by any one borrower going forward.

There are no asset restrictions stipulated at the moment. The System may reconsider and stipulate such restrictions. For example, the System may establish asset restrictions based on securities' demand spread.

Securities are recalled for proxy votes. The System does not anticipate a change in this regard.

7. Please confirm if we should submit Attachment C – Global Securities Lending Services Contract, or any of Exhibits A, B, C-1, C-2, D, E, F, G referred to on page 11, as part of our proposal.

Answer:

As stated on page 16 of the RFI, an Offeror's response should include a signed Bid/Proposal Affidavit. However, none of the documents set forth in Attachment C are required to be submitted with an Offeror's response.

The System intends to execute a Securities Lending Agreement and a collateral Investment Management Agreement (IMA). Investment Management guidelines will be a part of the IMA.

8. Do you intend to sign a securities lending agreement in addition to the contract in the RFI? If so, are you willing to review and work with our template?

Answer:

As stated on page 3 of the RFI, the System expects a chosen Offeror to sign the System's Global Securities Lending Services Contract substantially in the form attached as Attachment C, with appropriate revisions to reflect the Offeror's responsibilities for investment management of cash collateral, if applicable. The System will also consider negotiating certain terms of the contract, adding certain terms to the contract, or incorporating certain terms from the Offeror's standing operating agreements into the contract, as may be required to implement the services that the Offeror proposes to provide.

An Offeror requesting material changes to the form of contract should identify those changes in the Offeror's response to the RFI, such as by submitting a proposed revised

contract or otherwise. An Offeror should also submit with its proposal any standard operating agreements required to be incorporated into the contract to implement the proposed services. The likelihood of successful contract negotiations may be considered in the evaluation process.

9. Questionnaire (D), "Fees & Income split". What is the current lending income split and cash collateral portfolio management fee?

Answer:

The System does not believe the current fees and income split, which were highly negotiated, are relevant to this RFI.

10. Further to the information regarding the cash collateral portfolio the System's Comprehensive Annual Financial Report, would it be possible to share the average reinvestment net yield and/or spread to Fed Funds Open or OBFR for the July 1, 2016 through June 2017 fiscal year?

Answer:

According to current commingled fund manager, the commingled fund's average net yield was 0.8992% for the July 1, 2016 through June 2017 fiscal year

11. Are the guidelines within the Cash Collateral Investment Policy Section the same as your current cash collateral portfolio?

Answer:

No. Please see our response to question # 3.

12. Is the current cash collateral portfolio in a segregated or commingled structure?

Answer:

Commingled structure. Please also see our responses to questions 1, 2, 3 and 11.

13. The Cash Collateral Investment Policy Section ii (F), “Repurchase agreements”, does not permit repurchase agreements versus main index equities as collateral. Would the System consider main index equities as a repurchase agreement collateral option assuming; increased minimum collateral margin levels and agent lender provided collateral shortfall indemnification?

Answer:

The System may reconsider its position with respect to repurchase agreements versus main index equities as collateral, provided that margin levels are sufficiently high and that the lender is willing to indemnify the System from the counterparty default.

14. The Cash Collateral Investment Policy Section II (G) references a late day cash sweep with Northern Trust Investments as trustee. Exhibit F outlines that State Street Bank and Trust is the system’s Custodian. Can either the accuracy of these two statements be confirmed or can responders assume that Custodian and late day cash sweep will be the same, or affiliated, bank provider?

Answer:

The responders should assume that late day cash sweep will be into a “STIF” like vehicle managed by a Custodian.

15. The Cash Collateral Investment Policy III (V), “Eligible Investments Constraints” includes a table outlining a maximum five percent (5%) of total cash portfolio to each of the Eligible Investments in Section II between B – H. However, in each section of Section II Eligible Investments different maximum purchases/investment percent limits appear to be outlined, e.g. Section II (F) “Repurchase Agreements”, seventy-five percent (75%) of the total cash collateral is permitted for investment. Should responders evaluate using the % limits for each investment type in Section II or in the table in Section III (V)?

Answer:

Provided limits are for illustrative purposes only and the System expects to refine the cash collateral investment guidelines in the course of a negotiation, which will commence once leading candidates are identified.

16. It was stated in that “The Contractor warrants that it is registered as an investment advisor with the SEC under the Investment Advisors Act of 1940 and that it is registered or exempt from registration under Title 11 of the Corporation and Associations Article of the Annotated Code of Maryland.” If our Agency Lending Business resides in our bank unit which is exempt from 1940 Act registration because it is a bank, would this preclude us from participating in the search? Note the difference in language between the first clause (’40 Act) and the second clause (State registration).

Answer:

The System would consider a proposed revision to this warranty to accurately reflect the Offeror’s exempt status under the Investment Advisers Act of 1940.

17. Can Maryland provide average Securities Lending Program Loan Values over the past 5 years?

Answer:

Fiscal Year	Average On-Loan Balance
2013	3,081,995,923
2014	2,403,397,725
2015	2,034,314,045
2016	1,240,334,407
2017	2,157,224,042

18. Is the Agency willing to consider revisions to the terms of the Form of Standard Contract in Attachment A, including but not limited to the indemnification and fiduciary/standard of care language?

Answer:

See response to question 8.

19. Given that the standard contract provided with the RFI does not appear to address any specific securities lending provisions, is the Agency willing to include the terms of an Offeror's standard securities lending agreement in the final negotiated agreement between the parties?

Answer:

See response to question 8.

20. Will the Agency provide a copy of the existing Securities Lending agreement as a sample?

Answer:

See response to question 8. The Agency does not believe the current agreement, which was highly negotiated, is relevant to this RFI.

21. Should any restrictions as described in Section I of the RFI be taken into account in calculating a securities lending earnings estimate?

Answer:

Yes.

22. Does the Agency hold any legacy or impaired securities lending cash collateral assets? If so, is the expectation that these assets would be transitioned to a new provider?

Answer:

The System does not expect to transition to a new provider any securities.

23. Is question A. 14., specific to investment management affiliates of the lending agent or any investment management firms, commingled funds or private equity funds?

Answer:

The question A. 14. is specific to investment management affiliates of the lending agent.