

**MASTER CUSTODIAN, COMMISSION RECAPTURE AND SECURITIES LENDING SERVICES  
REQUEST FOR PROPOSAL  
# 515-14-137**

**QUESTION AND ANSWER DOCUMENT**

**Note: OPERS received a number of questions that were similar in nature and as a result you may not see the question you submitted verbatim.**

**GENERAL**

1. Why is OPERS undertaking this review?  
OPERS is nearing the end of a 5-year contract with the incumbent vendor and is required to re-bid the service contract.
2. Does OPERS anticipate any structural changes to the plans asset allocation, manager lineup or any other changes that the custodian should consider when providing a response to the RFP?  
Not at this time but changes noted above would be considered standard services to be provided.
3. What investment guidelines does the client have (regarding permissible instruments, counterparty limits, etc)?  
Please see "Statement of Investment Policy 11.21.13.docx"

**CUSTODY**

4. If possible, please describe or provide samples of any present customized reporting provided by your present custodian.  
OPERS does not currently use any custom reporting.
5. Is OPERS interested in reviewing the investment risk management capabilities of potential custodial providers?  
The respondent's value-added analytic capabilities could be expressed in answering questions VIII.B.4 and/or VIII.F.40.
6. Please provide a breakdown of the market value of separately managed international accounts by country in which the assets are held.  
See spreadsheet "Country allocation.xlsx"

7. What are your annual transaction volumes for the following transaction types:

All volumes are approximate

- domestic buys and sells  
34,500
- global buys and sells by country  
See transaction ""Summary Transactions by Market" table at the end of the Custody section
- wires  
OPERS – 70  
URSJJ - 40
- derivative transactions (swaps, options, futures)  
Less than 50
- 3rd party foreign exchange transactions  
60 transactions

8. In addition to monthly performance measurement reporting do you require any additional services; custom benchmarks, attribution, analytics, universe comparison, compliance monitoring?

Yes, we currently receive all of these services and expect our service level to remain the same.

9. What investment vehicle (STIF, Money Market Fund, or other) is utilized for short-term cash today?

STIF

10. What is your estimated average daily cash balance held in your current custodian's sweep vehicle? If there are foreign currencies, what is the currency breakdown?

OPERS holds no foreign currency

OPERS average cash balance is \$25,214,000

URSJJ average cash balance is \$770,000

11. Please provide annualized transaction volumes by market of settlement (DTC, Fed, Euroclear, UK, etc.) with transaction type descriptions: Buy/Sell/Wires/P&I/Called Bonds, etc.

<b>REQUEST FOR PROPOSAL #515-14-137</b>				
<b>SUMMARY TRANSACTIONS BY MARKET - 2013</b>				
MARKET	Pur/Sell	Prin Payments	Income	Wires
AUSTRALIA	36		12	
BRAZIL	58		26	
HONG KONG	125		25	
KOREA, REPUBLIC	31		-	
MALAYSIA	35		5	
NETHERLANDS	6		6	
PHILIPPINES	1		-	
SINGAPORE	21		6	
SOUTH AFRICA	23		14	
TURKEY	38		4	
CANADA	5		4	
EUROCLEAR	33		15	
FRANCE	61		33	
GERMANY	51		4	
INDONESIA	56		5	
ITALY	15		8	
JAPAN	156		24	
MEXICO	78		13	
SPAIN	17		5	
SWITZERLAND	26		1	
THAILAND	19		6	
UK	100		34	
US (DTC & FED)	22,484	6,768	11,797	28
Totals	23,475	6,768	12,047	28

## SECURITIES LENDING

12. Would OPERS accept a Third Party Securities Lending Proposal?

No. Please refer to VII (C) and (G).

13. In order to complete a securities lending revenue estimate, please provide an asset list in Excel by legal entity for the various bodies of assets that plan to participate. Please include full security description, security identifier, market value, shares and country of issue.

See spreadsheet "Plan Assets Sept 30 2013.xlsx"

14. If non-cash collateral is fully indemnified, would you accept additional forms of non-cash collateral? Please provide a list of acceptable non-cash collateral types (categories include US government securities, OECD debt including securities issues by their agencies and instrumentalities, supranational debt, etc.).

Not at the present time. Please see "Non-Cash Collateral Agreement.doc" for eligible non-cash collateral.

15. Do you currently have any borrower or loan restrictions or caps on your lending activity?

No. However, the Board reserves the right to apply borrower and/or loan restrictions or caps at its discretion.

16. If possible please provide your current cash collateral holdings particularly the impaired assets, if applicable?

See spreadsheet "OKPER Cash Collateral Pool Holdings 093013.xlsx"

17. How does OPERS intend to fund the legacy assets? Will they fund them with loans from securities lending?

OPERS will work with any potential new provider to determine which assets could be transitioned.

18. Does OPERS intend to lend in Taiwan?

OPERS does not lend in Taiwan and currently has no plans to do so. OPERS invests in Taiwan through ADRs which are eligible to lend.

19. What is your current fee split?

OPERS 85%, Northern Trust 15%

20. Do you require any/all securities be recalled to vote proxy?

No

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

Value on loan at 9/30/13 was \$802,774,614. We are unable to provide a detailed listing of loans outstanding.

22. What is the current yield on your cash collateral investment portfolio?

12 bps

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

No, the plan does not carry any impaired legacy assets in the collateral pool.

## FOREIGN EXCHANGE

24. Can you share annual FX volumes (USD\$ Equiv) by currency pairs, broken down between custodian flow and third party flow.

See spreadsheet "OPERS FX Volume by Currency 2013.xlsx". Ninety-nine percent (99%) of this volume is custodian flow.

25. Are portfolio managers and/or sub advisors given full discretion when managing FX needs? Yes Does discretion vary by asset class? No

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

OPERS does not manage any of the System assets internally. All advisors of the System are named fiduciaries and expected to follow the principles of best execution. As such, all trades in non-restricted currencies are expected to be negotiated.

27. How is the incumbent custodian instructed for FX transactions currently for:

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

OPERS does not use standing instructions as a normal course of business.

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

OPERS is not aware of any special pricing arrangements of execution processes.

29. Can you provide an fx transaction report, preferably quarterly.

See Spreadsheet "FX Transaction Detail.xlsx"

## **COMMISSION RECAPTURE**

30. For the purpose of estimating revenue associated with Commission Recapture, if possible, please provide an excel spreadsheet detailing purchase and sales for the past six (6) months.

See Spreadsheet “Broker Commission by Broker detail.xlsx”

## **LEGAL AND REGULATORY**

31. Is the State of Oklahoma willing to negotiate, or accept exceptions to, certain terms in General Terms and Conditions set forth in the RFP (including, among others, issues surrounding the Vendor’s fiduciary duties, applicable laws and courts, limitation of liability and indemnity)?

No.

32. Would Vendor be required to post collateral to secure any cash balance held under the custody relationship and/or be subject to any qualified public depository rules (or any similar rules) in effect?

No.

33. In what respect or in respect of what duties does the State of Oklahoma consider the custodian to be a fiduciary?

§74 909.2. Duties of fiduciaries.

A. A fiduciary with respect to the Oklahoma Public Employees Retirement System shall not cause the System to engage in a transaction if the fiduciary knows or should know that such transaction constitutes a direct or indirect:

1. Sale or exchange, or leasing of any property from the System to a party in interest for less than adequate consideration or from a party in interest to the System for more than adequate consideration;
2. Lending of money or other extension of credit from the System to a party in interest without the receipt of adequate security and a reasonable rate of interest, or from a party in interest to the System with provision of excessive security or an unreasonably high rate of interest;
3. Furnishing of goods, services or facilities from the System to a party in interest for less than adequate consideration, or from a party in interest to the System for more than adequate consideration; or
4. Transfer to, or use by or for the benefit of, a party in interest of any assets of the System for less than adequate consideration.

B. A fiduciary with respect to the Oklahoma Public Employees Retirement System shall not:

1. Deal with the assets of the System in the fiduciary's own interest or for the fiduciary's own account;
2. In the fiduciary's individual or any other capacity act in any transaction involving the System on behalf of a party whose interests are adverse to the interests of the System or the interests of its participants or beneficiaries; or

3. Receive any consideration for the fiduciary's own personal account from any party dealing with the System in connection with a transaction involving the assets of the System.

C. A fiduciary with respect to the Oklahoma Public Employees Retirement System may:

1. Invest all or part of the assets of the System in deposits which bear a reasonable interest rate in a bank or similar financial institution supervised by the United States or a state, if such bank or other institution is a fiduciary of such plan; or

2. Provide any ancillary service by a bank or similar financial institution supervised by the United States or a state, if such bank or other institution is a fiduciary of such plan.

D. A person or a financial institution is a fiduciary with respect to the Oklahoma Public Employees Retirement System to the extent that the person or the financial institution:

1. Exercises any discretionary authority or discretionary control respecting management of the Oklahoma Public Employees Retirement System or exercises any authority or control respecting management or disposition of the assets of the System;

2. Renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the System, or has any authority or responsibility to do so; or

3. Has any discretionary authority or discretionary responsibility in the administration of the System.

E. In addition to any other prohibitions contained in this section, the Board may not engage in a transaction prohibited by Section 503(b) of the federal Internal Revenue Code.

Added by Laws 1988, c. 321, § 36, operative July 1, 1988. Amended by Laws 1999, c. 257, § 32, eff. July 1, 1999.

34. Has the Oklahoma Public Employees Retirement System (including the Uniform Retirement System for Justices and Judges, collectively the "System") been funded with the proceeds of a Municipal Security offering, specifically, a Municipal Bond or Pension Obligation Bond? If yes, when were the bond proceeds deposited into the plan? If it is currently known and public information, is the State of Oklahoma planning to issue a Bond for the purpose of funding the System?

No.