

MARYLAND STATE TREASURER'S OFFICE

**Louis L. Goldstein Treasury Building
80 Calvert Street, Room 109
Annapolis, Maryland 21401**

QUESTIONS AND ANSWERS

FOR

REQUEST FOR PROPOSALS FOR

CUSTODIAL SERVICES

RFP # CUST-02042011

March 7, 2011

- Q-1. The link for the Investment Portfolio detail does not seem to be working. Can you please send us a new link and/or the portfolio in an Excel format so we can analyze the detailed holdings?
- A-1. The Investment Portfolio detail can be found at:
<http://www.treasurer.state.md.us/investment/investment-reports.aspx>
- Q-2. Please provide a detailed listing (excel file) for these investments.
- A-2. The investment portfolio is currently available only in .pdf format.
- Q-3. What is the desired length of this contract?
- A-3. The initial term of the Contract shall be for a period beginning July 1, 2011 and ending June 30, 2014. The Contract will also contain an option to renew, upon the same terms and conditions, for two additional one-year periods. Exercise of the renewal option will be solely at the discretion of the Treasurer. Please see Section 3.06 Term of the RFP.

- Q-4. Re: APPENDIX H, Affidavit of Agreement, Maryland Living Wage Requirements-Service Contracts: Would the State provide any flexibility to this?
- A-4. All proposals must be accompanied by a completed Living Wage Affidavit of Agreement. There is no flexibility regarding this form or compliance with the program.
- Q-5. Page 6, Section 2.16 Living Wage Requirements: What Tier would be applicable for employees working on the contract in the Northeast and/or Pennsylvania?
- A-5. If the employees who perform the services are not located in either Tier 1 or Tier 2 (Maryland counties), the procurement officer assigns the tier(s) based upon where the majority of the recipients of the services are located. The Contract resulting from this solicitation has been deemed to be a Tier 1 contract.
- Q-6. What is the reason (s) for the RFP?
- A-6. The current Contract for Custodial Services expires June 30, 2011.
- Q-7. Regarding the form of contract:
- A. Is it required to use the form of contract annexed as Exhibit D?
 - B. Our form of contract has no indemnification in favor of the client and a limited indemnification in favor of the custodian for losses incurred as a result of following the client's instructions; will this be permissible?
 - C. Our form of contract also excludes consequential damages and limits liability for the correctness of custodian's judgment except where bad faith, gross negligence, willful misconduct, or violation of the law is involved; is this permissible?
- A-7. The Form of Contract as Appendix D to the RFP meets the State's statutory requirements. The Offeror should include in its Technical Proposal any documentation that it proposes to become part of the Contract. Any documents in the Proposal that are approved by the State Treasurer's Office and its Counsel become part of the Contract. Please see Section 2.14 Acceptance of Terms and Conditions, of the RFP.
- Q-8. Can the contract be terminated by the custodian before June 30, 2014 without cause (but with an appropriate notification period)?
- A-8. No. The State Treasurer's Office does not allow termination by a contractor due to the extended lead time necessary to complete, by law, the required procurement process in order to select a replacement contractor.
- Q-9. Can you let us know the number of accounts you are currently using with your incumbent custodian?
- A-9. At present the State Treasurer's Office maintains three separate accounts.

Q-10. How many accounts/portfolios would be required?

| Account Type | Domestic (US) | Global | Total |
|---|---------------|--------|-------|
| Separately Managed Accounts (simple, equities and fixed income) | | | |
| Separately Managed Accounts (complex, e.g. derivatives) | | | |
| Line Item Accounts holding 1 line item | | | |
| Line Item Accounts holding multiple line items | | | |
| Cash Accounts | | | |
| Total | | | |

A-10. At present the State Treasurer’s Office maintains three separate accounts which hold three separate portfolios that are managed by the Director of Investments. At this time there are no global assets.

Q-11. Can you please provide an updated asset listing, inclusive of security descriptions, security type, and CUSIP’s, among other relevant information?

A-11. The Investment Portfolio detail can be found at:
<http://www.treasurer.state.md.us/investment/investment-reports.aspx>

Q-12. Please provide the number of accounts with separately managed assets as well as the number of Money Market Mutual Fund accounts.

A-12. At present the State Treasurer’s Office maintains three separate custody accounts. The number of money market accounts varies according to need. Please see the investment portfolio available on the Maryland State Treasurer's Office web page at the address provided in Answer 11.

Q-13. Who is your depository bank?

A-13 Bank of America, N.A.

Q-14. Who is your Disbursement bank?

A-14 Manufacturers & Traders Trust Company (“M&T”).

Q-15. How long has M&T acted as the Custodian?

A-15 M&T took over Custody Services from Allfirst Bank in April 2003 and has provided the services since that time.

Q-16. Can we get a copy of the current fee schedule in place with the incumbent custodian?

A-16. The total amount paid for Fiscal Year 2010 was \$122,135. The fee schedule for the current custodian includes unit prices for a variety of services which may not be disclosed

as they are confidential and proprietary information. In addition, such information would be irrelevant because this new RFP does not use the same fee structure.

Q-17. Do you do reverse repo transactions? Can you elaborate on the transactions and the nature of your process/program?

A-17. The State Treasurer's Office has the legal authority to do reverse Repo transactions when necessary. These transactions are only initiated on an as needed basis.

When the State Treasurer's Office has an immediate need for cash, yet does not want to sell securities, a Reverse Repo transaction is an option. Current pricing on all our securities held would be obtained by this Office to determine the best candidates for a Reverse Repo. Once a determination is made as to how much cash is needed, we would amass the best security candidates to provide the cash and then obtain bids from our list of active MRA/GMRA counterparties on a Reverse Repo transaction. When the best bid is secured, the Custodian will be instructed by this Office to effect the trade. The anticipated cash received would be sent with the 10AM wire to the Disbursing bank. At the conclusion of the Reverse Repo Agreement, the securities would be returned to the Custodian and the Custodian would DVP the cash settlement to the Counterparty.

Q-18. Does MD STO use any external/third party investment managers?

A-18. External/third party investment managers will not be involved in this RFP.

Q-19. Section 3.04 Custodial Services #6 (p11). Does the State require accounting services for the collateral accounts?

A-19. Yes.

Q-20. The Collateral Agreement indicates that the required collateral will be posted with the Fed or a third party bank as trustee. This Collateral Security Agreement is Appendix E of the RFP, and is referred to in the proposed Custody Agreement.

Is collateral or deposit insurance required only for cash, or, is the custodian required to collateralize or insure all assets held in custody for the State?

A-20. The Custodian will be responsible for ensuring 102% collateral for all Repo investments at all times. The Custodian will be responsible for ensuring 100% collateral for all cash. All other investments will be held in the State's name.

Q-21. Please provide the current (and expected) cash collateral investment guidelines for this program.

A-21. Please see Exhibits 1 through 4 regarding the investment guidelines. (State Finance and Procurement Articles §6-222, §6-202, and §6-209).

- Q-22. Regarding Collateralization: (various references throughout the RFP, such as on page 9, Section 3.02, Q # 6): Please confirm:
- A. Collateralization is only required for any funds which are not held in a segregated custodial account by The Bank. If this is not correct, kindly clarify.
 - B. If collateralization is required for cash on deposit with the custodian, how is this amount determined, since the amount of cash will vary?
- A-22. A. Collateralization is required for anything held in custody that is not in the State's name.
- B. It is expected that the Bank selected to serve as Custodian has the capability to determine how much cash they have on hand at any time.
- Q-23. Can you please provide greater detail operationally, as to how the process for margin calls works – parties involved, who drives the process, how funds flow, timing, etc.
- A-23. The Custodian determines that the market has moved through their extensive pricing services and internal market knowledge. The Custodian then realizes that they no longer have 102% collateral for the Repos. The Custodian contacts the Repo Counterparties with a margin call to increase the collateral held to 102%. The Counterparties will immediately forward additional collateral to the Custodian. The Custodian shall maintain 102% collateral at all times.
- Q-24. What daily pricing mechanism is the incumbent custodian providing? A Bloomberg terminal?
- A-24. The incumbent subscribes to multiple pricing services, one of which is Bloomberg.
- Q-25. Regarding the pricing of securities:
- A. Where, when and how do we receive the value of the MD LGIP?
 - B. Can you please provide what underlying assets are associated with the current repurchase investments? (only book value is currently reflected on the statements we had access to).
 - C. For “restricted” Repo investments, how is the market value of these types of securities derived?
 - D. What are your exact expectations regarding the timing of price updates on the securities in the portfolio?
- A-25. A. The Maryland Local Government Investment Pool (“MLGIP”) is always valued at 100% because the NAV is 1. This is not relevant because the MLGIP holds the funds, not the Custodian.
- B. The repurchase agreements are backed by Treasury and GSE Debt.
 - C. The market value of these types of securities is derived by industry standard.
 - D. The exact expectations on the timing of price updates will be at least daily.

- Q-26. Are you participating in a Securities Lending program? Can you please give us any specifics about this participation including outstandings, earnings and splits?
- A-26. The current Contract for Securities Lending is with Deutsche Bank AG New York. The State Treasurer's Office will be re-procuring these services with an expected award date to be on or before June 30, 2011.
- Q-27. What is the aggregate value on loan? Please provide a detailed listing of loans outstanding.
- A-27. Up to 100% of the securities may be lent at any time. The current Contract allows for up to 100% to be lent and returned next day, if needed.
- Q-28. Does MD STO have physical security holdings that would be serviced under the RFP?
- A-28. Yes.
- Q-29. Please provide a breakdown of annual trade volumes by market of settlement.
- A-29. 99.99% Fixed Income and .01% Equity.
- Q-30. Securities Lending: There is no mention of securities lending in this RFP. However, we noted in the 2009 Maryland State Treasurer's Annual Report (page 28) that a 3rd party securities lending agent is used for this Fund. If securities lending is utilized on this pool of assets under consideration for custodial services, kindly provide:
- A. The name or name(s) of the agent(s) utilized
 - B. The # of average annual and daily securities moved both in and out, related to this program
 - C. Please also confirm that for any securities involved in the securities lending program, as they are typically fully collateralized under those programs, that they would not be required to be collateralized by the custodian, while they are out on loan.
- A-30
- A. Deutsche Bank is the Securities Lender for the State of Maryland.
 - B. The average annual and daily securities moved both in and out varies depending upon the liquidity in the market. The historical yearly and daily averages are not reflective of the future.
 - C. The securities in the Securities Lending Program are all in the State's name and, therefore, are not required to be collateralized.
- Q-31. We also assume all assets are US assets, please confirm if there are any global assets.
- A-31. At this time all assets are US assets.

- Q-32. What money market fund companies do you invest with and how do you currently place investments with them?
- A-32. The State uses various money market funds based upon their expense ratios, performance and portfolio composition. At no time will the State select a fund with affiliated compensation.
- Q-33. Are all security maturities scheduled for payment prior to 10AM ET? Are there many instances where good funds from the depositories are not received by this time? (Page 8)
- A-33. The State investments mature on specific dates. It is our expectation that the funds will be received by the Custodian on that date.
- Q-34. Would you please elaborate further about your tri-party agreement program? Are you executing an agreement daily? Is all collateral held by your incumbent custodian? How many transactions do you execute annually? How many do you hold at any given time? Are some done outside of the custodial arrangement? (Page 14)
- A-34. The State does not have any tri-party agreements at this time; we simply reserved the right for those agreements in the future.
- Q-35. VII. AUTHORIZED AND SUITABLE INVESTMENTS: Is Custodian responsible for monitoring for authorized and suitable investments?
- A-35. The Custodian has fiduciary responsibility to the State to monitor authorized investments.
- Q-36. “There are multiple days during the fiscal year when the State’s disbursements total \$2-\$3 billion, and \$1 billion disbursement days are frequent. Therefore, each and every day, funds from the sale of and the maturing of investments must be delivered to the Office’s disbursing bank before 10 AM.”
- Please reconfirm whether the Maryland State Treasurer's Office requires “cleared funds” or cash projection reporting of all maturities and sales proceeds to be posted by 10AM daily?
- A-36. The funds needed at the disbursing bank must be there by 10 AM. The Offeror should expect that some days all funds from the sale of and the maturing of investments will not arrive at the Custodian bank before 10 AM. The Custodian must deliver the funds to the disbursing bank in anticipation of receiving the funds from the sale of and the maturing of investments.
- Q-37. Reference page 8, Section III. Scope of Services, 5th & 6th paragraphs: Regarding disbursements:

- A. Could the State kindly provide greater detail as far as when and how the Custodian Bank would receive notification of how much money will be required to be sent out by the stated 10AM deadline (to the Office's disbursing bank)?
- B. A related question - when would the State raise the needed funds? We would presume that the necessary funds that are intended on being disbursed would, at the latest, be raised by/before the day's prior activity.
- A-37. A. The State will call with the exact dollar amount necessary to be delivered by 9:30AM.
- B. The funds will be scheduled to arrive the day of disbursement.
- Q-38. A. Given the State's Investment Policy guidelines for the overall Fund, as well as for individual security and asset classifications; would it create an investment policy violation if a large percentage (the RFP references there will at times be daily cash movements of between \$2-3 billion, which is a considerable % of the overall Fund size) of the assets had to be placed into a money market "STIF" fund vehicle?
- B. Has this happened before, and are these types of investment policy violations permissible?
- A-38. A. Yes, given the State's Investment Policy guidelines for the overall fund, as well as for individual security and asset classifications; it **WOULD** create an investment policy violation if a large percentage of the assets had to be placed into a money market "STIF" fund vehicle.
- B. No. Funds are scheduled to arrive the same day they are scheduled to be disbursed.
- Q-39. Can you kindly provide a cash flow diagram? We understand from reading the RFP that much, if not all, of the daily funds are swept to the entity (PNC Financial Services Group, Inc.). It would be most helpful if you could provide daily times, cut-offs, etc. and also how the need to raise cash for disbursements is intertwined with the daily cash flow, and also securities which are bought and sold, as well as those which mature.
- A-39. Money comes into Depository bank. Money is wired to Disbursing bank before 8AM. The Disbursing bank and State Treasurer's Office verify all EFTs, Wires and Checks clearing for the day and determine the amount needed for the day. If cash is needed, the Custodian is called and then wires the exact amount needed to disbursing bank before 10AM. Some days this will be as much as \$3 billion dollars. The Custodian verifies interest payments collected, incoming redemptions and all residual funds are invested by State Treasurer's Office in Repo agreements. The Custodian DVPs all investments for the day. The Custodian verifies that all Repos have 102% collateral. The Custodian issues margin calls as needed. The Custodian returns excess collateral as requested and verified to counterparties.

Q-40. Are you expecting the transition any of these legacy cash collateral investments to the new provider?

A-40. There will not be any legacy cash requiring collateral.

Q-41. Please provide the number of MRA/ GMRA agreements the State of Maryland has as well as how many are actively traded under.

A-41. The State has ten actively traded MRA/GMRA and is working to approve additional MRA agreements.

Q-42. What is the average balance you maintain in the incumbent custodian's overnight sweep? Can you please give us the ticker/cusip for this vehicle?

A-42. The current Custodian prefers not to keep any cash in an overnight sweep.

Q-43. In regards to the overnight cash balance of \$200-500M: would this be invested in an overnight sweep vehicle with the chosen custodian?

A-43. In regards to the overnight balance of \$200-500M, this is invested in overnight Repos.

Q-44. 3.04 Custodial Services / Page 16. The Offeror shall deliver to the Office's disbursing bank all funds from the sale of investments and the maturing investments by 10:00 a.m. each business day.

Similar to above, please reconfirm whether the MARYLAND STATE TREASURER'S OFFICE requires "cleared funds" or cash projection reporting of all maturities and sales proceeds to be posted by 10AM daily?

A-44. The State requires that anticipated maturities and sales proceeds be wired to the Disbursing bank by 10AM.

Q-45. Indices & Classifications
Please provide a complete list of benchmarks that you utilize.

A-45. The external benchmark the State Treasurer's Office has used is the 3 month Constant Maturity Treasury.

Q-46. For clients receiving sector-level reporting, our firm utilizes the GICS or ICB classification scheme for equity, and the Barclays scheme for fixed income. If you would like us to utilize a different scheme, please provide details and a sample.

A-46. For fixed income, the State Treasurer's Office uses Barclays internally.

Q-47. Please provide an average balance in the custodian's short term cash vehicle.

A-47. The average balance is zero. The current Custodian does not typically provide for a short term cash vehicle. Alternatives for Good Friday and other days that the Money Markets are closed is desirable, however, the State Treasurer's Office will not approve any account with affiliated compensation.

Q-48. Please describe the level of performance measurement required and provide the following information related to performance.

| Fund Type | # of Accounts |
|----------------------------------|---------------|
| Separately Managed Accounts | |
| Commingled Accounts / One-Liners | |
| Composites | |

A-48. At present the State Treasurer's Office maintains three separate accounts which hold three separate portfolios. At no time may they be commingled.

Q-49. Please confirm there is no performance required.

A-49. Performance measurement is not specifically addressed in the RFP, however, that does not preclude the Office from considering this, as well as other enhanced reporting.

Q-50. Please enter your needs for Performance Measurement, Characteristics, Attribution, and Value-at-Risk.

| Scope of Services | Performance | Characteristics | Attribution | |
|--|-------------|-----------------|-------------|--|
| Required? (Yes/No) | | | | |
| Monthly or Daily? | | | | |
| Equity, Fixed Income, or Both? | | | | |
| Include Commingled Accounts? (Yes/No) | | | | |
| Based on Account Returns or Holdings? | | | | |
| At what level? (total fund, asset class, sector, country, and/or security) | | | | |

A-50. Please see response to Question 49, above.

Q-51. EXHIBIT 2, INVESTMENT POLICY, XIV. REPORTING / Page 68

Regarding: Section §6-222 of the State Finance and Procurement Article requires the Treasurer to file a report with the General Assembly on General Fund investments and all other investments by January 3rd of each year. At a minimum, the report shall specify the inventory of investments as of June 30 net income earned for the fiscal year percentage share of each type of security in the portfolio any sale of investments prior to maturity.

Does the Maryland State Treasurer's Office require customized reporting from the custodian for this internal reporting requirement?

- A-51. It is the expectation of the State Treasurer's Office that the reports provided by the Custodian will confirm the internal reports we use for this purpose.
- Q-52. Please provide your reporting deadlines following completion of accounting. Our firm maintains a library of hundreds of pre-defined reports, but if you have your own reports that you need our firm to reproduce in their current format, please provide samples.
- A-52. The State Treasurer's Office begins assembling reports for the Treasurer the first day of each month. Access to the information as soon as possible is one of the vital requirements of this RFP. There are no reports that we need your firm to reproduce in their current format.
- Q-53. Can MD STO provide sample reports they are currently receiving related to requirement in 3.04 Custodial Services #13?
- A-53. No. Reports currently received are voluminous and are protected from disclosure as confidential and proprietary information.
- Q-54. Can MD STO provide sample audited reports that they currently receive as outlined in Section 3.05 Additional Custodial Services #'s 4E, 4F, 4G?
- A-54. The State does not currently receive printed reports for 4. E, F, and G.
- Q-55. Is MD STO currently receiving performance reporting (outlined in 3.05 Additional Custodial Services, 5C) and is this a requirement?
- A-55. The State Treasurer's Office is seeking a description of the proposed on-line performance information system's features, functionality, and data as outlined in Section 3.05, Item 5C of the RFP.
- Q-56. Section 3.05 Additional Custodial Services #4 Reporting/Inquiry H (p15) – Will the selected custodian be required to integrate assets from other banks?
- A-56. It is not our intent for the Custodian to report on anything other than the items held in their custody.
- Q-57. Please provide details of third party vendors you utilize today (e.g., BARRA, FactSet) that you expect our firm to replicate.
- A-57. We do not use third party vendors at this time that we expect a Custodian to replicate.
- Q-58. Please provide details of the requirements for FTP feeds to or from any third party systems.
- A-58. We do not have any FTP feeds at this time.

- Q-59. Is MD STO currently receiving compliance monitoring (outlined in 3.05 Additional Custodial Services, 5D) and is this a requirement?
- A-59. Yes, the current Custodian monitors the 102% collateral for Repo. This is a requirement. See Section 3.02 Mandatory Requirements, item 6 and Section 3.03, item 2.
- Q-60. What performance measurement and/or compliance monitoring services would you like included in the fee?
- A-60. The fee should be inclusive.
- Q-61. Do you utilize 4-4-5 accounting?
- A-61. The State Treasurer's Office uses Government Fund Accounting.
- Q-62. The RFP states an monthly average incoming and outgoing securities of 150 each, equally 3,600 annual transactions. This seems low for a \$6.5 Billion fund. We would typically see closer to 8,000 annual transactions. Please confirm total annual transactions as well as number of holdings.
- A-62. This is to confirm that the 2010 average monthly incoming securities and outgoing securities was 150 as stated in Section 3.01 Background.