

**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
GLOBAL CUSTODY SERVICES FOR THE MARYLAND STATE RETIREMENT AGENCY,
RFP #GLOBAL-CUST-06102016**

July 11, 2016

NOTE: For all references to attachments, click the following link to view the attachments: <https://www.treasurer.state.md.us/procurement/global-cust-06102016.aspx>.

Q-1. In Scope of Work – Page 20 – 3.3.5.6 - This sentence appears to be incomplete.

A-1. See the attached Amendment to the RFP.

Q-2. Please provide us with the following:

- a. The number of domestic separately managed accounts;
- b. The number of global separately managed accounts;
- c. The number of accounts holding line items;
- d. The total number of accounts maintained with your current custodian;
- e. The number of purchases and sales for a one year period by country of settlement;
- f. The number of Fed wires both incoming and outgoing;
- g. The number of pay downs processed;
- h. The market value of assets by country;
- i. The number of transactions and value of OTC futures/options;
- j. The number of transactions and value of Exchange Traded derivatives;
- k. The number of “bank loan” investments and the number of associated transaction; and
- l. A list of your commingled fund managers.

A-2. ***For items g and k:***

- g. The number of pay downs processed are 16,382.
- k. The number of “bank loan” investments and the number of associated transactions as of 3/31/2016 we had 353 bank loans and for one year we had 2,500 buy/sell transactions.

See Attachment A (use link noted above) **for the following items:**

- a. The number of domestic separately managed accounts;
- b. The number of global separately managed accounts;
- c. The number of accounts holding line items;
- d. The total number of accounts maintained with your current custodian; and
- l. A list of your commingled fund managers.

See Attachment C (use link noted above):

- e. The number of purchases and sales for a one year period by country of settlement.

See Attachment D (use link noted above):

- h. The market value of assets by country.

See Attachment F (use link noted above):

- i. The number of transactions and value of OTC futures/options; and
- j. The number of transactions and value of Exchange Traded derivatives.

See Attachment G (use link noted above):

- f. The number of Fed wires both incoming and outgoing.

Q-3. In your current environment are you holding multiple "line item" assets such as PE & RE in accounts or is each line item held in its own dedicated account?

A-3. We use accounts for our PE, RE, Mezzanine Debt, Distressed Debt, Timber and Energy Funds.

Q-4. If each asset is held in an individual account would you be interested in holding multiple line items in a single account?

A-4. NA.

Q-5. Please provide a schematic (or detailed description) of the portfolio/account structure that you require. This should include structures for both your accounting and performance reporting requirements, identifying composites.

A-5. See Attachment B1 and B2 (use link noted above).

Q-6. Does the custodian provide the plan accounting/unitization? If so, how many plans participate in the Maryland State Retirement and Pension System?

A-6. Currently we are not receiving plan accounting/unitization. If we were to use plan accounting the system currently has 6 plans.

Q-7. Are you interested in receiving monthly accounting products with daily pricing or full daily accounting (i.e. – NAV's)?

- A-7. Currently we receive monthly accounting with daily pricing; however, we may request full daily accounting in the future which has been addressed in the pricing request.
- Q-8. Presuming you receive daily unitization today, do you also receive performance analytics for those units daily?
- A-8. Currently we do not receive daily unitization.
- Q-9. How many investment pooled units do you utilize today?
- A-9. Attachment A identifies our line item investments.
- Q-10. Are there any particular areas where you would like to see improvement?
- A-10. Although there is no specific area that MSRP is looking at for improvement, this is always a goal of the Agency.
- Q-11. What is your estimated cash balance in the custodian's short term cash fund?
- A-11. Averages between \$100 m and \$500 m.
- Q-12. Do you have a timeframe for reviewing your securities lending relationship with State Street?
- A-12. Our current contract has a Feb 2017 expiration date, so an RFI should be issued prior to that date.
- Q-13. Can you provide the volumes related to third party lending?
- A-13. See Attachment J (use link noted above).
- Q-14. Do you hold any Limited Partnerships? How many?
- A-14. Yes, we have 235 which have been identified on Attachment A.
- Q-15. If yes, what systems or software tools are you using to monitor the Limited Partnerships?
- A-15. Internally we use Excel; however we have external services provided in question 15.
- Q-16. What external service providers do you use for tracking the Private Equity portfolio, e.g., consultants, existing custodian, Burgiss Group, SunGard, iLevel, and what servicing do they provide? If you currently use Burgiss products, which do you use?

- A-16. We use our existing custodian, consultant and Burgiss to help with tracking. The Private Equity team uses the full Burgiss software suite which includes Private i, Private IQ and Private Informant.
- Q-17. Please provide a listing of investment managers employed by the Agency including the asset class and whether the account is separately managed or in a line item investment such as a mutual fund, commingled fund, etc.
- A-17. See attachment A (use link noted above).
- Q-18. Please provide the number of line item/commingled fund portfolios with corresponding market values.
- A-18. See attachment A (use link noted above).
- Q-19. Section 3.3.1.6. - Is the Maryland State Retirement Agency seeking to have valuations and pricing available intra-day or to have the finalized net asset values provided at the end of each day?
- A-19 Consolidated monthly accounting is what we are currently using.
- Q-20. Please provide the names of the separately managed international/global managers with corresponding market values for each.
- A-20. See Attachment A (use link noted above).
- Q-21. Do you require document collection (i.e. capital call and distribution notices, capital account and financial statements, K-1, etc.)?
- A-21. Yes.
- Q-22. Do you require archiving of and access to GP documents?
- A-22. Yes, related to calls and distributions.
- Q-23. Do you require LP Accounting services: booking of LP transactions and Valuations?
- A-23. Yes.
- Q-24. Do you require Valuation services, daily or monthly?
- A-24. Yes, monthly.
- Q-25. Is the Maryland State Retirement Agency seeking to have valuations and pricing available intra-day or to have the finalized net asset values provided at the end of each day?

A-25. End of Day.

Q-26. Do you require Cash Management (i.e. booking of wire instructions, electronic authorization, and reconciliations of cash movements)?

A-26. Yes

Q-27. Do you require allocation of cash flows at the plan level? If yes, do you have separate commitments at the plan level?

A-27. Currently we do not require plan accounting – if we do in the future its highly unlikely we would want Limited Partnership data allocated at the plan level.

Q-28. Do you require tracking of unfunded commitment?

A-28. Yes

Q-29. Do you require tracking of unfunded at the plan level?

A-29. No

Q-30. Do you require performance based on GP reported values? Adjusted values? Both?

A-30. Both.

Q-31. Please specify which performance measurement and risk analysis services are required.

A-31. See Attachment B2 (use link noted above) for an example of the performance measurement required. Currently we are not receiving risk analysis services but would like to see anything you are providing to other clients.

Q-32. Do you require performance at the plan level?

A-32. No.

Q-33. Section 3.3.17, Performance Measurement and Analytics, item # 3.3.17.11 and 3.3.17.13a – Please provide copies of your current Investment Performance Analysis report and the capital markets review you receive today.

A-33. See Attachment B-2 (use link noted above) performance report. Currently we are not receiving a capital markets review.

Q-34. For Real Estate investments, do you require gross and net TWR?

A-34. Yes, both.

Q-35. For Real Estate investments, do you require TWR by income and appreciation?

A-35. Yes to appreciation and not required, but desired for income.

Q-36. What is the frequency of your Performance Reporting? Quarterly, monthly, both?

A-36. Monthly with Limited Partnership values updated once a quarter and cash flows as they happen.

Q-37. Do you require tracking of characteristics and exposures at the underlying companies or properties?

A-37. No, assuming you are referring to fund of funds.

Q-38. Do you require tracking of realized proceeds and multiples at the underlying private equity company's level?

A-38. No, only the LP in total.

Q-39. Do you require any special reporting for your fund of funds portfolio?

A-39. No.

Q-40. Do you require Customized Reporting? If yes, please describe or provide a sample.

A-40. Yes, See Attachment L1 & L2 (use link noted above). Currently we also receive IRR benchmark comparison & vintage year analysis reports which cannot be shared.

Q-41. Do you require Board Reporting? How frequent? If yes, please provide a sample.

A-41. See Attachment B2 (use link noted above) – only standard performance reporting.

Q-42. Do you require data integration to third party platforms? How frequent?

A-42. Yes, monthly.

Q-43. Do you require Private Equity Benchmarking?

A-43. Yes.

Q-44. Do you require Real Estate Benchmarking?

A-44. Yes.

Q-45. Do you require customized Private Equity Benchmarking?

A-45. Yes

Q-46. Do you require Fee Transparency Service?

A-46. Desired, but not required.

Q-47. Please describe the structure of your portfolio (i.e. # of portfolios, # of aggregations, etc.) Provide schematic if available.

A-47. See Attachment E (use link noted above).

Q-48. Do you have any private equity or real estate consultants and if yes, can you please provide the firms name?

A-48. Yes, Altius for PE and PCA for PR.

Q-49. Do you require Attribution at the Total fund level or the security level?

A-49. Yes, based on the performance schematic, see attachment B2 (use link noted above).

Q-50. Please provide the following information:

1. Number of Private Equity Partnerships;
2. Number of Private Equity Fund of Funds;
3. Number of Private Equity Direct Investments;
4. Number of Real Estate Partnerships;
5. Number of Real Estate REIT/JV;
6. Number of Real Estate Direct Investments;
7. Projected # of new Private Equity investments per year; and
8. Projected # of new Real Estate investments per year.

A-50.

1. 156;
2. 18;
3. 0;
4. 37;
5. 2 REIT managers;
6. 0;
7. Estimate is to add 14 new funds per year thru 2018, after that the additional funds should be lower resulting from roll offs; and
8. Estimate is to add 3 per year. We maintain the majority of our Real Estate allocation in Core and REITs.

- Q-51. What is the vintage year and source of historical cash flows for the private equity and real estate assets?
- A-51. See Attachment L1 & L2 (use link noted above) for vintage years. Cash has historically been pulled from the equity portfolio when cash is needed. An internally managed cash account is also maintained for cash flow needs.
- Q-52. What is the current end-to-end operating model for private equity & real estate assets, including cash processing for capital calls/distributions, valuations, and reporting, between the client and 3rd parties (fund managers, custodian, consultants, and/or administrators)?
- A-52. See Attachment H (use link noted above).
- Q-53 - *Section 4.2.8. Trade and Foreign Exchange Processing*
Can you please provide a FX report that shows Maryland State Retirement Agency's annual spot FX volumes (USD\$ Equivalent) by market? Specifically the "Custodial Indirect FX" volumes (USD\$ Equivalent) versus the volumes traded on a "3rd Party" basis (USD\$ Equivalent)?
- A-53- See Attachment K (use link noted above).
- Q-54. Are there any special pricing arrangements in place with the current custodian as it relates to their custody FX product? If so, please describe.
- A-54. No.
- Q-55. Please confirm if the fiduciary requirement as stated under section 2.1.2 Minimum Qualifications applies to custody related foreign exchange activity where the custodian's FX desk acts as principal and executes trades based on a pre-agreed fixed spread pricing arrangement?
- A-55. No.
- Q-56. Please provide insight into any foreseen growth in assets, intended changes in asset allocation strategies, and/or additional services required over the next 5 years.
- A-56. It is assumed assets will grow over the next 5 years. The allocation to Private Equity will increase from 10% to 11% with the possibility of an additional increase to 13%. We may start an internal trading program that included derivatives.
- Q-57. Please describe what kind of counterparty risk you would like us to elaborate on.
- A-57. Primarily any third party relationships you utilize, but definitely sub-custodians.

Q-58. We appreciate the breadth and depth of RFP questions relating to service capability and process including Fund Level Performance Reporting (e.g. IRR). Can you confirm what if any additional required services for private equity and real estate assets are to be included in this bid? Specifically, do you require the following services?

- Monthly or daily valuation updates to portfolio-wide accounting
- Portfolio Company Transparency Reporting (e.g. industry classifications, geography exposure)
- Online Document Storage
- Access to a Manager Universe Database

A-58. Monthly valuations should be updated to reflect all cash flows;
Yes to the Transparency Reporting;
Online document storage for calls and distributions;
No to Manager Universe Database.

Q-59. Who (client, custodian, consultants) intends to initiate capital calls/distribution for private equity and real estate transactions via an online module?

A-59. Custodian initiates capital calls/distributions and the client confirms capital calls which require a wire.

Q-60. Are there any bespoke or custom requirements for the private equity and real estate assets?

A-60. Please see Attachment H (use link noted above) as well as A-40 above for requirements related to private funds.

Q-61. Please clarify what Maryland State Retirement Agency is looking for regarding "collateral/margin movements".

A-61. This is in relation to margin movements on derivative transactions (e.g. futures).

Q-62. What frequency is needed for compliance testing? Daily, monthly, or both?

A-62. Both.

Q-63. How many funds are needed for compliance testing?

A-63. 36.

Q-64. Is there any look through requirement? For example, if there is a fund on fund, does the compliance testing need to perform on the underlying holdings of the fund on fund?

A-64. No.

Q-65. Are there any benchmark related rules?

A-65. Yes.

Q-66. Are there any rules required Risk or Performance attributes such as tracking error, excess return or durations?

A-66. Yes.

Q-67. For compliance services, please describe types of accounts (Traditional, Hedge Fund, Private Equity, Real Estate, etc.). For how many funds would you require this service?

A-67. Traditional, currently 36 funds.

Q-68. Appendix A - Would the Treasurer consider an unbundled price proposal based on assets under custody ("AUC"), transaction volume, number of accounts, etc. as opposed to fixed annual amounts?

A-68. Pricing is to be submitted in the format provided on Appendix A and A-1.

Q-69 Appendix A-1, Price Proposal: Please clarify the difference between the Daily Accounting option on p. 80 and the fee requested for Daily Unitized Value on p. 81.

A-69. Daily accounting would require audited NAV which would be used for performance reports and require reporting that currently is limited to monthly. Daily accounting would be required to generate a daily unitized value like a mutual fund.

Q-70. Does the retirement agency currently have a bundled fee that includes securities lending? Do you plan to review securities lending services separately?

A-70. Our current bundled fee does not include Security Lending. Our current security lending contract will expire in Feb 2017; therefore, an RFI will be issued prior to that date.

Q-71. Please provide details on your current custody fee arrangement.

- A-71. We currently have an annual bundled fee structure that includes a CPI adjustment. For calendar year 2015 we paid \$849,000 for our custody services.
- Q-72. Would the Treasurer consider a tiered pricing structure based on AUC in addition to the number of managers?
- A-72. Pricing is to be submitted in the format provided on Appendix A and A-1.
- Q-73. Would the Treasurer consider shorter option extensions, for example 2 one-year extension, or consider the option to extend bilateral?
- A-73. No.
- Q -74. Appendix E - Fiduciary Responsibility Section 4.1 of Appendix E makes reference to the Bank acting in a fiduciary capacity as custodian. However, Section 4.1.2 of the same Appendix states that the contractor shall be a Fiduciary when exercising discretionary authority or control over the management or disposition of assets of the system.
- A-74 Section 4.1 of the Standard Form of Contract reflects the fiduciary standard applicable to the Contractor.
- Q-75. Please provide the specific fiduciary responsibilities and contractual fiduciary standard required from the custodian bank when performing Custodial services absent investment discretion.
- A-75. See response to Question 74 above.
- Q-76. Are the funds within the Maryland State Retirement and Pension System considered "state" or "public" funds? Would the funds require collateralization?
- A-76. Retirement funds are public. We don't require collateralization on the entire portfolio.
- Q-77. With respect to your existing custody agreement with your current custodian, did you negotiate any modifications to the Form of Standard Contract?
- A-77. The prior RFP did not have a form of contract attached and instead noted the "Mandatory Contractual Provisions" in Section 6.
- Q-78. Would the Treasurer be willing to provide a copy of its current custody agreement?
- A-78. This information may be provided by making a written request to the Procurement Officer for such information under the Maryland Public Information Act.

Q-79. Is the Treasurer willing to negotiate the terms of the Form of Standard Contract provided in Appendix E, particularly those regarding the fiduciary status of the custodian and the indemnification and liability provisions?

A-79. No.

Q-80. Is the Treasurer willing to incorporate terms from an Offeror's standard custody agreement into the final negotiated agreement between the parties?

A-80. Any terms and conditions that are unacceptable to the STO will be required to be withdrawn before contact award.

Q-81. Please confirm if Maryland will accept a redlined version of the sample contract (Appendix E) or if an exceptions list should be provided.

A-81. A redlined version of the sample contract will not be accepted.

Q-82. The RFP states that "Offeror's must submit to the Procurement Officer a package containing one (1) unbound written original, and five (5) printed copies (total of 6) of the Technical Proposal and the Price Proposal, each in separate envelopes." Does the Maryland State Retirement Agency mean the Technical Proposal and Price Proposal in one envelope, for a total of 6 envelopes, or the Technical Proposal and Price Proposal in separate envelopes, for a total of 12 envelopes?

A-82. The technical and price proposals are separate. To clarify, all copies of the technical proposals may be submitted in one package/box. All copies of the Price proposals and CD must be submitted in a **separately sealed** envelope/package. They may be shipped in the same box, but price must be separate.