Request for Proposal

For

Securities Lending Services

July 13, 2015
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Attachment: Excel Spreadsheet with Holdings and Estimate Form
I. BACKGROUND INFORMATION

Retirement Board
In 1935, the Ohio Public Employees Retirement System (OPERS) began a tradition of providing excellent retirement benefits for state employees. With approximately $89 billion in assets, OPERS provides retirement, disability, and survivor benefit programs for public employees throughout the state who are not covered by another state or local retirement system. OPERS serves more than 1,005,000 members of 3700+ public employers and over 196,000 retirees and surviving beneficiaries who receive monthly benefits.

Financial Information
The most recent OPERS Comprehensive Annual Financial Report is available on the OPERS website at:
https://www.opers.org/pubsarchive/investments/cafr/2013%20CAFR.pdf

II. SECURITIES LENDING PROGRAM

OPERS recognizes the alpha benefit of a risk-controlled front office function that is known as securities lending. There are historical benefits to the organization from competition, both at the agent level, as well as with competing brokers bidding for the assets. As a result Staff strives to hire agents who provide competitive fee splits, while providing risk controls and expertise in the asset class being loaned.

In the current environment, and one that we envision going forward, OPERS relies on the lending agent to provide the back-office functionality, including marking to market, operations support, custodial interfaces, interest/rebate clean-up and borrower default indemnification in the lending of our Treasuries, Agencies, and Mortgage-Backed Securities. OPERS’ Staff does the trading of the assets, and the cash reinvestment of the collateral.

For all other asset classes OPERS relies on the lending agent to provide trading as well as back-office functionality in the lending of these assets. OPERS does all cash reinvestment of the collateral for these loans. This is a more traditional third-party securities lending structure.

In many respects OPERS is a non-traditional beneficial owner. We value the effort of those lending agents who may be able to think “outside the box”. Those who are able to innovate, and provide opportunities for non-traditional methods of generating alpha are the lending agents we would consider to be strong candidates.

OPERS Investment Overview
As of December 31, 2014, the System’s $ 89.8 billion in assets were diversified across various asset classes as follows:
III. SCOPE OF SERVICES

The purpose of this Request for Proposal is to select one or more securities lending agents to lend portfolios of U.S and non-U.S. Equity, and global Fixed Income while also supporting back office functions for all asset classes including internally traded/loaned U.S. Treasury, Agency and Mortgage-Backed Securities.

Full Third-Party Lending Agent Services for the following asset classes:

- U.S. Equity
- Non-U.S. Equity
- Global Fixed Income
  - Investment Grade Corporate Bonds, Emerging Market Debt, and High Yield Bonds
Back Office/Legal Documentation support for OPERS’ trading of these assets (including mark to market, billing, all operational support, interaction/instructions with custodian, and broker default indemnification):
  • U.S. Treasury, Agency, and Mortgage Backed Securities
    o OPERS would be trading these assets under the legal agreement that the lending agent already has in place with the borrowing brokers – in effect, serving as an off-site trading desk of the lending agent for OPERS’ own assets.

IV. SECURITIES LENDING AGENT PROFILE/QUESTIONNAIRE

FIRM NAME:____________________________________________________

CONTACT PERSON:______________________________________________

ADDRESS:_____________________________________________________

_______________________________________________________________

TELEPHONE NUMBER:___________________________________________

FACSIMILE NUMBER:____________________________________________

E-MAIL ADDRESS:_______________________________________________

WEBSITE ADDRESS:____________________________________________

SIGNED:_______________________________________________________

Name (print):__________________________________________________

Title:__________________________________________________________

Date:__________________________________________________________
A. Organization

1. Provide a brief description of the corporate history, primary locations of business, strategic partners and alliances, company structure, and ownership.
2. Provide a brief description of the history and development of your securities lending program, including dates of both implementation of key elements and enhancements to the service.
3. What is the total of all assets that are eligible to be loaned, and the total amount on loan as of 12/31/2014?
4. What is the total revenue derived from securities lending services?
   a. Of this amount how much is attributable to cash collateral investments?
5. How many securities lending clients does your organization service?
   a. What percentage of total lending revenue do your five largest clients make up?
   b. What percentage of your assets on loan do your five largest clients make up?
6. What is the organization’s commitment to the securities lending program?
7. Summarize your business plan for securities lending services for the next three years, five years, and ten years.
8. How many public fund clients have you gained and lost in your securities lending program in each of the past three years for reasons other than mergers and acquisitions? For each public fund account lost, indicate the reason for termination and provide a prior contact name and phone number. (Please note: while contacts for terminating clients are required, they will not be contacted unless your firm is selected as a finalist.)
9. Please provide the name, asset size, contact person, and phone number of three or four existing securities lending program clients whom we may contact for references. The funds should be of similar size, complexity, and portfolio composition as our fund. Please ensure that two references have assets in excess of U.S. $10 billion and that at least two references utilize a different investment manager for the cash collateral than your firm. (Please note: while reference listings are required, they will not be contacted unless your firm is selected as a finalist.)
10. Has your firm been the subject of any litigation regarding securities lending services or regulatory sanctions over the past five years? If so, please describe fully.
11. Please describe any potential conflicts of interest your company would have in providing the services discussed in this RFP.

B. Staff

1. How many personnel are assigned directly to the Business Unit?
   a. Total
   b. Management/Administrative
   c. Cash Management
   d. On-site Personnel
   e. Trading
   f. Operations
   g. Client Relationship Management
2. If departments outside the Business Unit provide duties integral to the securities lending product, please describe their responsibilities and interface with the Business Unit.

3. List the names of the personnel who will be assigned to this account for no less than two years. Provide a professional biography for each of the personnel listed and each officer of the Business Unit reporting line. Include the names of other organizations for which they have performed related duties.

4. How many professional staff members do you propose to be placed on-site for our account (if any)? List each individual that will be assigned to be on-site for this account including their current role with the organization, securities lending experience, the length of time they have been with the organization and the rank and level of authority of these individuals. Include their complete professional biography.

5. How many accounts does your typical account representative manage? How do you determine the number of accounts assigned to each individual, team or group?

6. Describe how you maintain personnel in key sensitive staff positions, including:
   a. Recruitment/Replacement
   b. Training
   c. Retention (including Incentive Programs)

C. Securities Lending – Third-Party Agents

1. Describe your securities lending program for public pension funds. Include a brief history. Describe the organization and its structure, including:
   a. Number of employees;
   b. Names of key staff and their experience;
   c. Staff turnover in the last three years;
   d. Size of program (total assets currently lent, clients in lending program);
   e. Significant ownership, staff, and/or business development over the past three years;
   f. Client turnover for each of the last three years;
   g. Style/strategy of program (matched versus unmatched; philosophy on term loans, exclusives, auctions, etc.).
   h. Cash collateral management philosophy and resources
      i. Number of clients for whom your organization manages cash collateral
      ii. Amount of cash collateral as of May 15, 2015
   i. How your firm views and manages non-cash collateral for any loans

2. On average over the last three years, what percent of eligible securities were on loan and what was the average intrinsic spread and cash reinvestment spread earned for each of the following asset types (please list as a spread to Fed Funds)?
   a. U.S. Equities
   b. U.S. Treasuries
   c. Corporate Bonds
   d. Non-U.S. Equities
   e. Mortgage-Backed Securities
   f. U.S. Agencies
3. Describe the asset categories and country locations in which you lend securities. Provide a list (in SAMPLE REPORTS/OTHER MATERIALS) of markets and asset categories in which you currently perform securities lending functions as of May 15, 2015.

4. Identify when you started in each category and what factors you consider before lending in a particular category.

5. Sell Fails
   a. Does the increased probability of settlement problems in certain markets enter into your decision to loan securities in those markets?
   b. Comment on failed trades, the expected frequency, how they are handled and any trade settlement protection or compensation that you provide, including your policy with respect to buy-ins.
   c. Discuss your policy and resolution procedure relative to all failed trades.
   d. Who assumes responsibility for settlement failures?

6. Have you ever had a securities lending client lose money during any one month period – where aggregate rebates paid to brokers exceeded aggregate investment income related to securities lending?
   a. What is your policy concerning negative loans – where an individual loan’s rebate exceeds the reinvestment rate of that loan?
   b. What is your policy about how long such a loan will be kept open before a recall occurs?

7. What are the terms of indemnification available to your clients? Describe in detail your indemnification policy against losses to lending participants. Please also describe any indemnification of cash collateral, if available.

8. Describe your errors and omissions insurance coverage and any other insurance coverage your firm carries for securities lending clients.

9. Describe how you apportion loans across multiple lending clients. Describe instances where the queue may be “overridden”.

10. Describe your initial and ongoing credit analysis program. How are credits monitored and what actions are taken after credit downgrades? How many brokers are authorized to borrow in your program? In SAMPLE REPORTS/OTHER MATERIALS, please provide a list of your current approved borrowers (include their lending limits).

11. Please provide a description of your credit review process and how often the names are reviewed. How are dealer, bank, or other lending limits determined and who makes those decisions? Please also include where these credit analysts reside within your organizational structure and where do they report.

12. Please describe your current process for having a third party manage cash collateral for clients in your program.

13. Who is responsible for the management of cash collateral portfolios at your firm? Please provide biographies for these individuals.

14. Our fund requires that all loaned securities be collateralized at an agreed-upon margin and marked to market daily. Describe the monitoring procedures in place for ensuring the appropriate collateral levels are maintained, which pricing sources you use and how often portfolios are priced.
15. OPERS needs the following information reported DAILY to us by transaction and in total: gross revenue, gross rebate paid to broker, net revenue before split, net revenue after split, average rebate rate, average reinvest rate, total assets, total lendable assets, market value of assets on loan, and contract amount of assets on loan. Please provide a sample of reports that indicate compliance with this information. Furthermore describe your securities lending reporting capabilities. Provide (in SAMPLE REPORTS/OTHER MATERIALS) a sample of your standard daily, monthly, quarterly, and annual reports. Are these reports also available electronically? Do you support file uploads from third parties to incorporate cash collateral portfolio holdings in your reports? Please ensure that reports are provided that detail the following areas:
   a. Collateral
   b. Securities on loan
   c. Consolidated asset/liability exposure

16. Describe any risk reporting that would be available, in detail, for cash collateral portfolios, including any that may be managed by third parties.

17. Describe and provide detailed information (in SAMPLE REPORTS/OTHER MATERIALS) on cash collateral reinvestment options for:
   a. Separately managed accounts
   b. Commingled funds
   c. Guidelines
   d. Size of fund
   e. Number of participants

18. Discuss the process of marking to market the reinvestment portfolio. How often is this performed? What pricing sources are utilized? How do you price securities that do not have a readily available price? What happens if there is an unrealized loss?

19. Discuss your firm’s risk management tools/systems related to securities lending. Please provide sample reports/outputs of your system in SAMPLE REPORTS/OTHER MATERIALS.

20. Describe your compliance process related to your securities lending program. Please provide sample reports in SAMPLE REPORTS/OTHER MATERIALS.

21. What portion of your securities lending program is done as a third-party agent, versus as a custodian? Please enumerate the total assets available for lending and the assets on loan in each category.

22. Please list any and all systems currently utilized for securities lending and management of cash and/or non-cash collateral related to securities lending. Provide a brief description of the system and what it does.

23. How are recalls, corporate actions, and income collections handled for securities out on loan?

24. Would you supply or build any required interfaces between your systems and a third-party custodian? If so, how long will it take to establish all necessary interfaces? At what cost to OPERS?

25. Please discuss custodial fees, wire fees, systems development costs and any other fees or costs associated with third-party lending, and which parties have responsibility for those fees.
26. Does your firm ensure the confidentiality of our lending data? Do you supply any outside parties with data associated with our securities lending activity? If so, is there an ability to “opt out”?  

27. What are your standard Fed, DTC, and wire instruction deadlines to process trade activity for securities lending? (Please provide details for faxed, electronic, or other instructions)  

28. What procedures do you have in place for chasing DTC or late principal and interest payments as well as compensation on such funds?  

D. Fees  

1. Please describe all fees related to your program.  
2. Please describe how you would propose handling any fees charged by our custodian for the lending of these securities, including receive, deliver, and other transaction fees.  
3. Would there be any fees related to the management of the cash collateral that you would propose charging OPERS? If so, what are the amounts of those fees, and for what specific purpose would they be charged?  
4. If OPERS manages cash collateral would that change any of the previous responses in this section?  

E. Innovation  

1. Can you please describe your philosophy regarding innovation (i.e. new products, systems, ideas, etc.)?  
2. Can you please describe one instance where you initiated a new product, idea or service at the request of a client? What was the reason for the innovation? What was the process to implement? What were the results?  
3. Can you also describe how much innovation has impacted your clients?  
4. Does your view on innovation take into account needs on a client by client basis, or do you look at blanket innovation to assist all clients? Why?  
5. Have there been instances in the past when innovation has only helped a single client? Why was this done?  
6. What type of company resources are dedicated to innovation on a full time basis? Please describe teams, number of employees that are solely dedicated to innovation for the securities lending product.  
7. Can you please describe your future plans for innovation and how these product offerings can be beneficial to any or all clients?  
8. Can you provide any insights into areas (no specifics are needed) in which you believe new ideas that you are currently working on will positively impact your clients and/or the industry?  
9. Does the constantly changing regulatory landscape change the way that your firm approaches innovation and subsequent product offerings?
F. Earnings

**For the following earnings questions please include a cash return assumption of 15bps above Fed Funds Effective.**

1. Based off of the holdings and estimate worksheet included with this RFP, can you please provide an earnings estimate, both gross and net (after fee split to OPERS), of expected securities lending earnings?

2. What earnings guarantees would you offer to OPERS that the estimate provided will be realized if awarded any of the securities lending business?

V. GENERAL TERMS AND CONDITIONS FOR SUBMITTING PROPOSALS

1. Vendor acknowledges that OPERS is subject to the Ohio Public Records Act, and the documents submitted pursuant to this RFP may be subject to a public records request. Accordingly, Vendor must identify any material or documents that are confidential and clearly mark those items or documents at the time of submittal. If a request for records is made that includes information Vendor has identified as confidential, OPERS will make reasonable efforts to contact Vendor in sufficient time to allow Vendor to take appropriate legal steps to protect the confidential information from disclosure. If as a result of the position taken by Vendor regarding the confidentiality of the information OPERS is assessed any damages or fees, Vendor shall indemnify OPERS for such damages or fees. If no documents or materials are identified and marked by Vendor as confidential, Vendor will be deemed to have consented to the release of the document or material, and to have waived any cause of action against OPERS resulting from the release of the documents or materials.

2. Regardless of cause, late proposals, in whole or in part, will not be accepted and will automatically be disqualified from further consideration. It shall be the Vendor’s sole risk to ensure delivery at the designated office by the designated time. Late proposals will not be opened and may be returned to the Vendor at the expense of the Vendor, or destroyed if so requested.

3. OPERS reserves the right, in its sole discretion, to reject any or all proposals submitted, and to waive as to any vendor or as to all vendors, any informality or irregularity in a proposal or proposals or any failure to conform to the instructions in this RFP.

4. This Request for Proposal is not a contract, not meant to serve as a contract, and does not constitute a promise to enter into a contract.

5. All documents, proposals and other materials submitted in response to this RFP will become the property of OPERS and will not be returned to Vendor.
6. Vendor agrees to comply with all terms, conditions and requirements described in the RFP. Any failure by any responding Vendor to so comply shall be grounds for rejection of that Vendor’s proposal, as determined by OPERS in its sole discretion.

7. If a contract results from this RFP, neither the successful responding Vendor, nor anyone on its behalf (including its agents, affiliates, subcontractors and/or vendors), shall publish, distribute or otherwise disseminate any press release, advertising and/or publicity matter of any type or kind (collectively “advertising material”) having any reference to OPERS, this RFP or the resulting contract, unless and until such advertising material first shall have been submitted to and approved in writing by OPERS.

VI. SELECTION CRITERIA

Proposals will be evaluated, and OPERS will make any final decision to award the contract.

During the evaluation process, the OPERS management may, at its discretion, request any or all vendors to make oral presentations. Such presentations will provide Vendors with an opportunity to answer questions regarding the Vendor’s proposal. Not all Vendors may be asked to make such oral presentations.

Proposals will be evaluated based on the following criteria (in no particular order):

1. Organization
2. Lending history
3. Client focus
4. Reporting
5. Cash collateral
6. Operational/Risk capabilities
7. Innovation
8. Fees
9. Revenue estimate
10. Qualitative impression

After evaluation of the proposals, OPERS may determine a list of finalists not to exceed three (3) and may commence sequential negotiations on any aspects of the proposals OPERS deems appropriate beginning with the highest scoring finalist. If OPERS does not reach agreement with the highest scoring finalist within a reasonable time, or if in the sole opinion of OPERS negotiations reach an impasse, OPERS may decide not to award the contract or may begin negotiations with the second highest scoring finalist. OPERS may choose to continue such negotiation schedule with subsequent finalists on the same basis until a contract is negotiated, no other finalists remain, or OPERS decides not to award the contract.
VII. INSTRUCTIONS FOR SUBMITTING PROPOSALS

1. Please provide two (this number should include one extra redacted copy for public record requests) hard copies and two (this number should include one extra redacted copy for public record requests) electronic copies of your proposal by Noon Eastern Time, on Tuesday, August 18, 2015, to:

   Mr. Jerry May
   Ohio Public Employees Retirement System
   11th Floor Global Bonds
   277 East Town Street
   Columbus, OH 43215
   jmay@opers.org

2. Questions concerning this Request for Proposal must be submitted in writing or via e-mail to Jerry May, jmay@opers.org. The question and answer period will be from July 16, 2015 to August 14, 2015. Questions and answers will be posted on the OPERS website.

3. No Vendor shall attempt to communicate with OPERS concerning this RFP in any manner or at any time other than during the question and answer period (see Item #2 above). Communication with OPERS, other than as previously described, will result in immediate disqualification.

4. This Request for Proposal is issued on July 13, 2015. OPERS reserves the right, in its sole discretion, to amend or cancel this RFP.