

Employees' Retirement System of the State of Hawaii
Global Custody Services and Securities Lending
Request for Expression of Interest

Issued October 1, 2012

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INTRODUCTION

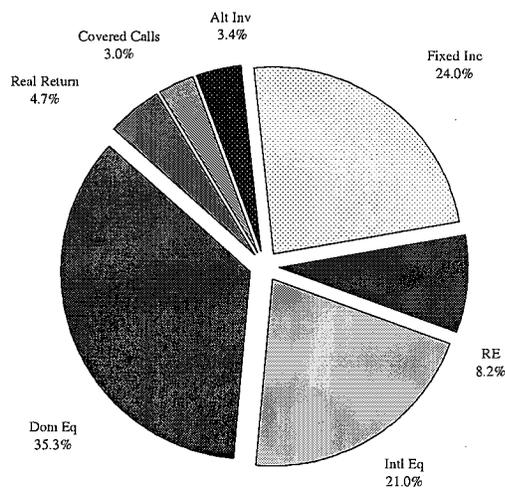
I. OVERVIEW

The Employees' Retirement System of the State of Hawaii ("ERS") administers a defined benefit retirement plan for the State and County government employees of the State of Hawaii. ERS provides retirement, disability and death benefits for its members. ERS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. Administration of the ERS falls under the policy and executive direction of a Board of Trustees with certain areas of administrative control vested in the State Department of Budget and Finance. The ERS annual report is available on our website at <http://ers.ehawaii.gov/resources/financials>.

ERS is requesting an Expression of Interest ("EOI") to provide global custody services for the safekeeping and asset servicing of plan assets and securities lending services. The services are expected to be for a period of five (5) years and six (6) months, starting from April 1, 2013 and ending on October 31, 2018. The ERS plans to award separate contracts for custodial services and securities lending services, although a single organization will be selected to provide both custodial and securities lending services.

As of June 30, 2012, the total market value of assets is approximately \$11.3 billion. Target asset allocation is shown below.

Target Asset Allocation



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Asset Class	\$ Millions Actual *	Percent Actual	Percent Target	Percent Difference
Domestic Equity	3,691	32.8%	35.3%	(2.5%)
International Equity	2,351	20.9%	21.0%	(0.1%)
Fixed Income	2,891	25.7%	24.0%	1.7%
Real Estate	916	8.2%	8.2%	0.0%
Private Equity	432	3.8%	3.8%	0.0%
Real Return	527	4.7%	4.7%	0.0%
Covered Calls	352	3.1%	3.0%	0.1%
Other	92	0.8%	0.0%	0.8%
Total Fund	11,252	100.0%	100.0%	

*Amounts per Asset Class above for performance measurement may differ from holdings per manager listed below as real estate performance reporting is lagged one quarter.

ERS assets are diversified across multiple asset categories and multiple investment managers. The table below lists the investment managers of ERS.

Managers	Market Value ¹	Account Structure ³ (Separate or Commingled)	Custody / SHE ⁴	Notes
Domestic Equity				
<i>Large Cap Growth</i>				
Atalanta Sosnoff	\$498,578,988	Separate	Custody	²
Mellon Large Cap Growth	\$695,796,823	Commingled	SHE	^{4b}
<i>Large Cap Value</i>				
Barrow Hanley	\$481,801,061	Separate	Custody	
CS Mckee Investment Mgrs	\$311,161,298	Separate	Custody	
Systematic Financial Mgmt	\$419,197,811	Separate	Custody	
<i>Large Cap Core Equity</i>				
Bank of Hawaii	\$110,416,102	Separate	Custody	
CM Bidwell & Associates	\$94,999,472	Separate	Custody	
<i>Small Cap Equity</i>				
Jennison Associates	\$199,388,913	Separate	Custody	
T. Rowe Price	\$198,642,593	Separate	Custody	
International Equity				
<i>Developed International</i>				
JP Morgan Chase	\$648,559,413	Separate	Custody	
Franklin Templeton	\$340,603,746	Separate	Custody	
Mercator Asset Mgmt	\$311,823,158	Separate	Custody	
<i>Emerging Markets</i>				
QMA	\$147,424,133	Separate	Custody	
Research Affiliates	\$145,854,191	Separate	Custody	
<i>Global Equity</i>				
Mellon Global Fund	\$1,434,327,450	Commingled	SHE	^{4b}
Fixed-Income				
<i>Diversified Fixed-Income</i>				
Bradford & Marzec	\$582,320,107	Separate	Custody	
First Hawaiian Bank	\$231,813,679	Separate	Custody	

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Managers	Market Value ¹	Account Structure ³ (Separate or Commingled)	Custody / SHE ⁴	Notes
Pacific Income Advisers	\$210,455,601	Separate	Custody	
PIMCO	\$738,597,662	Separate	Custody	
Western Asset Mgt Co	\$758,644,192	Separate	Custody	
<i>Non US Fixed-Income</i>				
Oeschle Intl	\$368,779,413	Separate	Custody	
Private Equity				
Abbott Capital	\$411,090,612	Seperate	SHE	4b
HiTIP (Macquarie Funds Mgmt)	\$6,875,037	Commingled	SHE	4b
TALF Fund (MetWest)	\$14,222,148	Commingled	SHE	4b
Real Return				
Blackrock (GILS)	\$367,989,276	Separate	SHE	
Hancock Timber Resource	\$158,778,330	Separate	SHE	4b
Real Estate (R/E are all classified as Securities Held Elsewhere Accounts for Custodial Purposes)				
<i>Separate Accounts</i>				
Heitman Capital Mgmt	\$323,186,793	Separate	SHE	4b 8
Invesco Realty Advisor	\$284,786,360	Separate	SHE	4b 8
LaSalle Investment Mgmt	\$136,099,338	Separate	SHE	4b 8
Angelo Gordon	\$31,223,741	Commingled	SHE	4b
Blackstone Real Estate VII	\$1,671,843	Commingled	SHE	4b
AG Core Plus Realty Fd III	\$6,120,000	Commingled	SHE	4b
Blacksand I	\$1,934,779	Commingled	SHE	4b
CB Richard	\$43,488,685	Commingled	SHE	4b
LaSalle Income & Growth	\$44,875,237	Commingled	SHE	4b
Lone Star Fund VII	\$11,505,409	Commingled	SHE	4b
Lone Star RE Fd II	\$5,626,520	Commingled	SHE	4b
Mesa West RE Inc Fd II	\$14,395,252	Commingled	SHE	4b
Oaktree PPIP	\$9,198,836	Commingled	SHE	4b
Prudential Sr Housing Fd IV	\$2,282,758	Commingled	SHE	4b
Covered Calls				
Gateway Cov Calls Non Repl.	\$71,431,611	Separate	Custody	
Gateway Cov Calls Repl.	\$280,026,200	Separate	Custody	
Other / Cash Funds				
BOT Discretionary Fund/Short Term	\$79,396,387	Separate	Custody	5
Non-Custodized Local Investments	\$10,584,530	Seperate	SHE	4b
Transition Account I	\$1,535,272	Separate	Custody	2
Transition Account II (includes closed accounts)	\$3,651,746	Separate	Custody	2

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Notes to table

1. Market values as of June 30, 2012 are unaudited.
2. ERS will maintain at least one transition account for portfolio rebalancing. Account balances in the process of being closed as of June 30, 2012 are included in the Transition Accounts balances, with the exception of Atalanta Sosnof account that was closed in August 2012.
3. Account Structure (Separate or Commingled) is defined as how assets are held by the ERS.
 - a. Separate Account – Investment manager is given discretion on investment decisions of the account; only ERS assets are included in account.
 - b. Commingled Account – Generally represents a single investment within an investment fund; reported as a single asset.
4. Custody (with custodian bank) vs SHE (Securities Held Elsewhere) accounts.
 - a. Custody accounts are for individual securities held by Master Custodian on behalf of ERS which custodian is responsible for custody of individual securities, transaction accounting and calculating performance reporting.
 - b. For SHE Accounts, the custodian memo posts transactions from statements provided by ERS investment manager and uses performance results provided by ERS' investment manager/consultant.
 - i. Cash transactions related to the investments are usually processed through the SHE account to properly report cash transfers and investment performance related to the specific account.
5. The BOT Discretionary Fund/Short Term is the primary "operating" account for ERS at the global custodian.
 - a. Although a cash management account, this account is used to receive excess cash from "ERS local" bank accounts in Hawaii; receive and disburse investment funds for assets not under custody for this contract (SHE accounts, commingled funds, real estate); receive securities lending income; and receive securities litigation (class action) proceeds.
 - b. The majority of ERS' daily non-investment related transactions are supported by accounts with financial institutions located in Hawaii, including pension, refund, and vendor payments.
6. The Non-Custodized[custodialized?] Local Investments account represents ERS Member Home Loan Program, Commercial Loans, and cash held for ERS' non-investment (pension and operating) activities. The ERS provides a monthly report with aggregate amounts by asset class to the custodian for investment accounting and reporting requirements only. The current reporting includes two line items of (a) cash for Hawaii bank accounts and (b) loans. Reporting on this account is expected to be less than 5 security items/lines.
7. The ERS is comprised of the Employees' Retirement System (a Pension Trust) and Social Security Contribution Fund (an Agency Fund). Each of the fiduciary funds is considered a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, equity, revenues and expenditures, or expenses, as appropriate.
 - a. Pension Trust - Members of the ERS belong to the contributory, hybrid or noncontributory plan. For purposes of this EOI, the ERS (pension trust) is considered to be one investment pool, since all assets of the ERS (in the Pension Trust) may be used to pay benefits to any member of the ERS. All of the ERS investment assets are included in the list of investment accounts (managers) above.
 - i. Investments and cash management in the Pension Trust– ERS uses external money managers for almost the entire investment portfolio. ERS manages funds in-house for the pension trust from the following accounts (listed above) BOT Discretionary Fund/Short Term and the Transition Account (Tax Reclaims balance).

Banking services in Hawaii are provided by Bank of Hawaii to include the receipt of ERS' member and employer contributions and the payment of pension benefits and administrative expenses. Excess funds are transferred to ERS's custodial bank as it becomes available.
 - ii. Agency Fund – As an agency fund, the Social Security Contribution Fund is custodial in nature and limited to investment grade, short-term marketable securities. At this time ERS does not expect to hold any assets for the Social Security Contribution Fund with the custodian bank.
8. Real estate assets are primarily held as limited liability companies and limited partnerships; and to a lesser extent 501c corporations. There is one property directly held in ERS' name. The preferred ownership structure is the limited liability company.

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Please refer to Attachment 2 (Securities Lending Guidelines), Attachment 3 (Operating Systems in use by ERS), Attachment 4 (Asset Holdings of ERS), Attachment 5 (Form of Contract), Attachment 6 (ERS General Ledger Chart of Accounts), Attachment 7 (Investments and Securities Lending Related Sections, Hawaii Revised Statutes), Attachment 8 (Investment Practices), Attachment 9 (ERS Investment Statistics) and Attachment 10 (ERS Comprehensive Annual Financial Report).

We are inviting your organization to submit an EOI to provide global custody services and appropriate services required by ERS such as securities lending, performance measurement, investment policy compliance monitoring, risk analytics, and short-term cash management programs.

When responding to this EOI, we encourage you to describe the ways in which you believe your organization's service capability is unique or would add particular value. Please be succinct in your answers and, if certain services cannot be provided, please so state where appropriate.

We would appreciate a written response to this EOI even if you do not wish to be considered to provide the services. Your written response to the EOI and any other relevant information and materials are due by November 21, 2012. ERS would like to make any transition to a new contractor effective April 1, 2013.

II. RULES AND REQUIREMENTS

This section sets forth the rules and administrative requirements, which will be used in responding to the EOI.

A. Contracting Officer

Mr. Wesley Machida
Administrator
Employees' Retirement System of the State of Hawaii
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813
Phone: (808) 586-1700
Fax: (808) 586-1677

B. Format

1. Length of Response

A response must be printed on 8.5" x 11" paper and one-sided. A response shall not exceed **200** pages, excluding biographies and exhibits required as part of the EOI. You are encouraged to be succinct and respond to the EOI as directed. Follow the format by stating the question and your corresponding answer as specified in the Technical Capabilities Section. Failure to comply with the format may result in your response being classified as "unresponsive." If, for any reason, your organization cannot comply or is unable to provide a specific service, respond with "cannot comply" or "unable to provide", and briefly describe the reason.

2. Cover Letter

The response must include a cover letter addressed to Mr. Wesley Machida as listed in Section II.A. The letter must state, in one or two paragraphs, your organization's

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commitment to participate in the EOI process and a statement to the effect that your organization is willing to perform all services mandated. The letter should be signed by the individual(s) authorized to contractually bind your organization. An unsigned submission will be rejected. The letter should also include the name, address, Email address, telephone and fax numbers of the appropriate contact person within your organization. The cover letter must state that the EOI response is valid for six (6) months subsequent to the final filing date November 21, 2012.

C. General Evaluation Information

A committee of ERS personnel will evaluate the EOI responses. The committee reserves the right to modify evaluation criteria prior to the submission date for responses. Written notification of any changes will be provided through the addendum process, as set forth in Section II.H.

ERS seeks to retain the highest quality organization to provide custody and securities lending? services in a fair and competitive process. ERS reserves the right: (i) to not select any EOI response; (ii) to select any portions of a particular response for further consideration; (iii) to accept a response other than the lowest cost response submitted; or (iv) to reject any and all responses received if such action is considered by ERS in its sole discretion to be in the best interests of ERS. ERS seeks innovative ideas, presented in a complete custody and securities lending service package, which can meet the requirements of the ERS' investment and accounting functions and improve the way in which ERS manages its operations.

D. Evaluation Process

The evaluation process will be conducted through the following phases:

Phase 1: Incomplete and/or "unresponsive" responses may be disqualified;

Phase 2: Responses which do not meet the minimum requirements will be disqualified;

Phase 3: The evaluation committee will conduct interviews with offerors in Honolulu on January 23 & 24, 2013.

Phase 4: Offerors may be requested to submit best and final offers no later than 4:30 p.m., HST, on January 30, 2013. If a best and final offer is not submitted, the previous submittal will be deemed to be the best and final offer.

Phase 4: Following the interviews and receipt of best and final offers, the Evaluation Committee will rank the offerors according to the criteria set forth in Attachment 1.

Phase 5: A contract will be negotiated including fees, with the first ranked candidate. In no case will the negotiation result in a fee that is higher than the fee contained in the proposal. If a satisfactory contract cannot be negotiated with the first ranked candidate, negotiations with that candidate will be formally terminated and negotiations with the next ranked candidate will commence. Negotiations will be conducted confidentially.

E. Timetable

By submitting a response, your organization is committing to comply with the timetable set forth in Section III (Key Action Dates) and to effectuate any agreements necessary to

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implement and enter into a contract with ERS.

F. Withdrawal

An organization may withdraw its response at any time prior to the final submission date and time by submitting a written notice signed by an authorized agent to the contracting officer identified in Section II.A. The response may be resubmitted up to the final submission date and time. ERS reserves the right to waive or permit cure for minor informalities, and to conduct discussions with all qualified providers in any manner necessary to serve the best interests of ERS. ERS also reserves the right to award a contract based upon the written responses received and without prior discussion or negotiations.

G. Questions

If additional information is required regarding this EOI, requests for such information must be submitted in writing (fax is acceptable). Questions will be accepted by the contracting officer until 4:30 p.m. (Hawaii Standard Time) October 22, 2012.

Written responses will be provided by ERS via the addendum process described.

H. Addendum

ERS may modify any part of the Request for EOI, prior to the date fixed for submission of final responses, by issuance of an addendum to all participating parties. ERS will respond to questions and inquiries via the addendum process. Addenda will be numbered consecutively.

I. Submission of the Response

The response should be labeled "Employees' Retirement System of the State of Hawaii Global Custody and Securities Lending Services EOI 2012." A master (so marked), nine (9) hard copies, and one (1) electronic copy (MS Word or Adobe Acrobat format on a 650MB/74 minute format CD) of the response must be received no later than 4:30 p.m. (Hawaii Standard Time) November 21, 2012. The sealed package should be addressed to the contracting officer listed in Section II.A.

J. Your organization shall designate those portions of your response that contain trade secrets or other proprietary data/information that you wish to remain confidential. This information must be readily separable from your response to facilitate public inspection of the non-confidential portions. Any request for public inspection is subject to the requirements of Chapter 92F, Hawaii Revised Statutes.

K. Expenses for the development and submission of an EOI are the sole responsibility of the organization submitting the response. Travel and expenses to and from the State of Hawaii are also the sole responsibility of the organization submitting the EOI.

ACCEPTANCE OF PROPOSAL AND EXECUTION OF CONTRACT

Acceptance of an EOI response, if any, will be made within ninety (90) calendar days after the opening of responses. The offeror must have the ability to perform as called for in the Request for EOI and in the agreement. The ERS shall be the sole judge of capability. The successful offeror will be notified by letter that its proposal has been accepted and that the offeror is being awarded the contract.

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The ERS shall forward contracts to the successful offeror for execution. The contracts shall be signed by the successful offeror and returned within ten days after receipt by the offeror or within such further time as may be allowed.

No contract shall be considered binding upon the State until the contract has been fully and properly executed by all parties thereto.

All exceptions to the sample contract form (Attachment 5) must be included in your EOI response.

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III. KEY ACTION DATES

Listed below are the important actions and corresponding dates by which the actions may be taken or completed. If ERS decides to change a date for any reason, notification will be given via the addendum process described in Section II.H.

<u>Actions</u>	<u>Dates</u>
Release of the Request for EOI	October 1, 2012
Last date for questions	October 22, 2012
ERS' response to questions	November 2, 2012
Deadline for submission	November 21, 2012
Site Visits (if required)	January 15-18, 2013*
Presentations in Honolulu	January 23-24, 2013*
Best and Final Offer due	January 30, 2013
Final selection and notification	February 1, 2013
Service initiation	April 1, 2013

*Best estimates at this time

IV. MINIMUM QUALIFICATIONS

Contractor must comply with all applicable Hawaii laws. Contractor must be willing to be subject to the laws of the State of Hawaii and the jurisdiction of its court system in the administration of the contracts.

CUSTODY

- A. If submitting a proposal, the candidate must have at least \$300 billion in tax-exempt master trust/master custody assets as of June 30, 2012. This amount must include at least \$5 billion in international equity and fixed income.
- B. As of June 30, 2012, the candidate must have provided custody services for a minimum of ten (10) years.
- C. The account manager assigned must have had a minimum of five (5) years experience in the master trust/custody field with at least three (3) years experience at the responding firm. The transition team leader and his/her assistant must have worked together on at least one (1) prior major conversion of an account with market value in excess of \$5 billion consisting of multiple asset classes.
- D. ERS investments are required to be in compliance with Section 88-119, Hawaii Revised Statutes, as amended, including guidelines established by the ERS Board of Trustees (refer to Attachment 8).

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SECURITIES LENDING

- A. If submitting a proposal, the candidate must have at least \$100 billion in securities lending lendable base on an agency basis as of June 30, 2012.
- B. As of June 30, 2012, the candidate must have provided securities lending services for a minimum of ten (10) years.
- C. The account manager assigned must have had a minimum of five (5) years experience in the master trust/custody field with at least three (3) years experience at the responding firm.
- D. Any cash collateral reinvestment emanating from ERS' securities lending program shall be in compliance with Section 88-119, Hawaii Revised Statutes, as amended, and ERS Securities Lending Guidelines (located in Attachment 2) and guidelines established by the ERS Board of Trustees (refer to Attachment 8).

V. SERVICES

The offeror must be able to provide all of the services listed below unless otherwise indicated:

A. ACCOUNTING

- 1. Trade date multi-currency (local and US dollars) accounting for all securities and full accrual accounting for all assets.
- 2. Accounting for the following:
 - a. Dividends and interest, corporate actions (including mergers, acquisitions, tenders, stock splits and dividends, warrants and spin-offs)
 - b. Securities lending
 - c. Domestic and international fixed income and equity portfolios
 - d. Equity real estate and mortgage loan portfolios
 - e. Futures and multi-currency derivatives
 - f. Private placements, including domestic and non-US limited partnerships and/or limited liability companies for LBO's, venture capital, etc.
 - g. Expenses related to the investments listed above.
- 3. Payable date posting for dividends, bond interest and principal, and interest and paydown on mortgage pass-through certificates.
- 4. Accounting must be on a fiscal year basis (July 1 - June 30).
- 5. A secondary pricing source for comparison to the primary source for pricing securities.
- 6. Investments must be reported at cost and market value. Gains and losses on securities sold must be recognized on the basis of the average cost of the securities.

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7. Provide daily positions with ability to post both accrued trades and settled trades and cash equivalents.
8. The proposer confirms that all information concerning holdings and transactions will be available for inquiry, download and print capabilities.
9. Master Trust Accounting - basis for allocating net assets, net investment income, and gains and losses to three or more participating plans (e.g., sub-accounts) in the master trust.
10. Include the Securities Held Elsewhere (SHE) investments and related transactions in ERS' accounting records and statements by individual investment from reports provided by ERS' investment manager. Results of these transactions should flow into other modules of the global custodian's system, such as performance reporting. The actual data entry method (key in or electronic update) for transactions of SHE assets is left to the discretion of global custodian. This includes, but is not limited to, entering and distributing calls, distributions and other administrative tasks in maintaining a portfolio of non-public funds.

B. SECURITIES SETTLEMENT

1. Participating member and access to securities settlement through DTC, Federal Reserve wire system, PTC, and at other depositories (both domestic and international).
2. The ability to settle physically held securities.
3. The ability to execute foreign exchange transactions.
4. The ability to settle transition trades conducted by external transition managers.
5. Provision of buy-fail float and contractual settlement date posting of sales.
6. Trade data must be electronically accessible by ERS, its investment managers, and consultants.
7. Capability to monitor investment manager compliance and alert client of violations.
8. Ability to execute and monitor calls, distributions and other administrative tasks in maintaining a portfolio of non-public funds.

C. CASH MANAGEMENT

1. Provide a Short Term Investment Fund (STIF) for daily cash sweeps.
2. Provide for same day settlement of cash trades, such as physical, DTC, and Fed wireable repo and term purchases.
3. Transfer cash between accounts, make and accept wire transfers of funds (including

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provision of Fed reference numbers upon request), and accept fund contributions via ACH.

4. Provide daily investment of all cash balances at the end of each day.
5. Able to make wire and check payments for ERS investment and operating expenses from ERS' accounts for invoices submitted by ERS with appropriate approvals. Track the payment request upon receipt from ERS, process payment per instructions, provide acknowledgment of? notice of payment, and record the transaction in appropriate account as classified by ERS.

D. SECURITIES LENDING

Be able to provide separate account securities lending services for eligible domestic and international securities.

1. Establish a list of eligible borrowers and a maximum amount that may be borrowed by each borrower. Conduct ongoing reviews of borrowers' qualifications. ERS retains right to identify which borrowers are not acceptable to the ERS as potential borrowers of the ERS' securities under the securities lending program.
2. Require that all loans of securities be collateralized by either cash, securities or letters of credit of [or?] mutually acceptable counterparties. Securities shall be collateralized at:
 - a. 102% of market value of the loaned securities denominated in United States Dollars or with the primary trading market is located in the United States, sovereign debt issued by foreign countries or corporate bonds
 - b. 105% of market value of loaned securities whose primary trading market is not located in the United States (or referenced in (i) above), or
 - c. not less than 102%, of market value of the loaned securities, as may be applicable in the jurisdiction in which loaned security is customarily traded.
3. Require competitive market levels of collateralization for domestic and international securities, including accrued income.
4. Monitor collateral levels daily. Obtain additional collateral if mark-to-market values fall below acceptable levels.
5. Collect all interest or other distributions with respect to all loaned securities.
6. Make available a daily report of collateral, identifying daily collateral required and pledged, and a monthly report on securities lending activity and outstanding loans, including amounts by borrowers.
7. Provide indemnification against borrower default.
8. Provide a collateral reinvestment fund for daily investment of cash collateral received.

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9. Monthly securities lending reports are due within 10 working days after the end of each month.

E. CORPORATE ACTIONS, CLASS ACTIONS AND PROXY PROCESSING

1. In a timely manner, provide annual reports, proxy voting cards, and proxy statements to ERS' proxy voting agent.
2. Timely notification to ERS' investment manager of corporate actions regarding conversion privileges, issuance of rights, mergers, tender offers, reorganizations, and other actions requiring decisions by ERS' investment managers.
3. Timely notification of class action litigation and provision of the necessary securities information to ERS and ERS' attorneys.
4. File class action proofs of claim, to include claims for periods prior to contract period.
5. Track and report on securities litigation settlements to which ERS is entitled, to include the ability research and report on completed actions. Reporting requirement includes class actions outstanding at time of contract period.

F. TECHNOLOGY

1. Provide PC- or workstation-based system with access to management information and accounting systems with the capability of providing the following information:
 - a. Current and historical prices, market values, and exchange rates in effect at times of pricing international securities
 - b. Composite portfolios
 - c. Current and historical transactions by security; by account; by asset class
 - d. On-line access to current and historical holdings in any aggregate
 - e. Customized reports as required
 - f. Ad hoc query and reporting
2. Provide state-of-the-art back-up systems to minimize loss of data and provide instant availability.
3. Daily download of portfolio holdings which includes the receipt of periodic cash payments from equity real estate holdings, alternative investments, and cash flows from ERS.
4. Provide staff with the ability to review all externally managed portfolios, and perform an automated reconciliation to asset positions and income accruals on a monthly basis.
5. Provide daily trade dated asset allocation reports of individual portfolio market values by asset class.
6. Provide a system which makes cash projections by account. Said projections should

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incorporate STIF balances, dividend and interest income, maturities, income from trade settlements, corporate actions, or other known cash flows.

G. REPORTING REQUIREMENTS

1. Provide audited monthly holding reports to be received no later than 7 working days after month-end for on-line reports and hard copy reports.
2. Provide accurate monthly, quarterly, and year-to-date reports on all transactions, income, and other pertinent investment data, in a format acceptable to ERS no later than 7 working days after the end of each month, quarter, and year, respectively.
3. Access to historical daily data on-line for at least 180 days; and archived beyond that period
4. Provide other reports as may be requested by ERS, including unaudited valuations on weekly and daily basis (depending on how frequently managers update portfolios).
5. At a minimum, all reports will comply with the Department of Labor reporting requirements.
6. Provide annually, or more frequently if available, the Service Organization Control Reports (SOC 1, SOC 2, SOC 3) formerly the Statement on Auditing Standards "SAS" No. 70 report on processing of transactions by service organizations.
7. Provide certification from the trustee that the reported information is complete and accurate.
8. Monthly and annual securities lending reports are due within 10 working days after the end of reporting period
9. Reports of daily transactions including domestic trades affirmed, unaffirmed, failing, pending, etc.
10. Performance measurement, attribution, risk management, and other analytic reports in a format acceptable to the ERS.
11. Monthly investment manager reconciliation of holdings.
12. Capability to generate investment manager compliance reports on a daily basis online.

H. PERSONNEL

1. Contractor must make presentations as required to the Board to discuss services related to ERS.
2. Contractor should provide the personnel to facilitate audit access to ERS' staff or its designated agents for the purpose of verifying the integrity of contractor's operations

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for the ERS account and all data input and output in case such an audit is deemed necessary.

I. FIDUCIARY RESPONSIBILITY

1. The contractor shall be a fiduciary (as defined in section 3(21)(A) of the Employee Retirement Income Security Act of 1974 (ERISA, as amended) with respect to the ERS, and ERS' assets. As fiduciary, contractor shall apply investment prudence to all investments it has investment responsibility for, such as short-term cash management, and securities lending functions.

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J. PERFORMANCE MEASUREMENT

1. Provide monthly performance reports no later than ten (10) working days after month end. Provide quarterly performance reports no later than 30 days after quarter end. All reports must be available online for downloading.
2. Provide broad-based universe(s) for comparison, benchmarks, and blended benchmarks.
3. Provide broad universe comparison charts and rankings with respect to total fund, asset classes, and individual managers.
4. Provide risk/return comparison data with respect to total fund, asset classes, and individual managers.
5. Provide portfolio characteristics, top holdings, and attribution analysis vs. the benchmark at the total fund, asset classes, and individual manager levels.
6. Ability to download historical returns and fund holding on all accounts.
7. Capability to provide both net and gross of fee performance results.
8. Capability to provide separate performance reports on alternative investments, if requested.
9. Capability to customize performance reports on an ad-hoc or permanent basis.
10. Investment performance results shall be reported in full compliance with industry standards as adopted by the ERS Board of Trustees. The current standard for ERS is the CFA Institute standards.
11. Capability to provide analytics linked to bank or other provider databases to conduct peer performance analysis and generate staff searches for managers.

VI. FEE PROPOSAL

FIRM _____

Once a firm has been selected, negotiations of the fee may become necessary in order to account for the size of ERS' portfolio, ERS' requirements and any clarification of other issues. In no case will the negotiations result in a fee which is higher than the fee contained in the proposal.

In preparing the fee schedule, proposer must consider the requirements described in this EOI. Please provide separate fee schedules for

The following should be taken into consideration:

1. The fees are to be proposed in U.S. Dollars.
 2. All services will be paid quarterly in arrears.
 3. Are the fees quoted below negotiable?
- *Include the proposed securities lending income split (with indemnification)

FEE SCHEDULE

	Global Custodian with <u>Securities Lending</u>
A: Flat Retainer Fee Quote	\$ _____
Additional Fees (if applicable):	
Other (write in description)	\$ _____
_____	_____
_____	_____
_____	_____
Total Flat Retainer - Custody Related Fees	\$ _____
B. Fees for STIF (Basis Point)	_____
_____	_____
C: Securities Lending Proposed Split (%)	
ERS	_____ %
Mgr*	_____ %
	100%
Fees for Sec Lend STIF (Basis Point)	_____

VII. QUESTIONNAIRE

A. BACKGROUND AND ORGANIZATION

1. Legal Name of Entity:
Name of firm:
Address:
Contact:
Phone:
Fax:
E-mail:
Website:
2. Provide a brief history of your firm and your master trust/custody, or securities lending operations. What services distinguish you from your competitors?
3. Provide details of the financial condition of your firm. Describe any material changes in the last five years. Please list the S&P and/or Moody's ratings of your commercial paper (if applicable), and ratings on long term debt. What is the proposer's exposure to derivative instruments, both in notional and net exposure and as a percent of total capital?
4. List your firm's lines of business and approximate contributions of each business to your organization's total revenue and operating income. If your firm is an affiliate or subsidiary of an organization, list the lines of business of the parent firm and identify the percentage of the parent firm's total revenue that your subsidiary or affiliate generates.
5. Discuss the overall business objectives of your firm with respect to future growth. Comment on any present or planned areas of emphasis over the near future.
6. Briefly describe the organizational structure of your firm and the Master Trust/Master Custody Department/Securities Lending.
 - a. Provide organization charts which clearly show the operating interrelationships and authority within the master trust/custody or securities lending service unit and within the organization. Be sure to show the reporting relationships between the administrative/relationship manager group, the accounting/reporting group, and the trade settlement groups and control structures. Describe the procedures used to ensure continuity of service during vacations or other absences within each group.
 - b. Are account teams formed by function or by client? Explain.
 - c. Do you have a separate administrative group for public funds? If yes, explain the difference.
7. Summarize your business plans for master trust/custody or securities lending services for the next three years, including plans for mergers/acquisitions. What support does senior management provide in the search for improvement in master trust/custody?

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8. What are the Public Funds Master Custody, or securities lending, department's gross revenues? Is this department profitable? What percentage of your company's profit was contributed by this department?
9. Provide a brief explanation and indicate the current status of any business litigation or other proceedings related to the master trust/custody business (including securities lending) involving your firm or any officer or principal over the past five years.
10. Are you willing to be subject to the laws of the State of Hawaii and the jurisdiction of its court system in the administration of this contract?
11. Provide a copy of your most recent audited financial statements, the Auditor's Report on the Internal Control Structure and the Audit Report of Policies and Procedures Placed in Operation, in accordance with Service Organization Control Reports (SOC 1, SOC 2, SOC 3) formerly the Statement of Auditing Standards No. 70 relating to your custodial accounts. Label this as Exhibit A.
12. Briefly describe your bonding, insurance coverage and indemnification provided to protect clients of service(s) proposed, including but not limited to Errors and Omissions and for Fidelity bonding. Indicate the type, carrier, carrier rating, levels, limits, deductibles and expiration, as applicable.
13. Please disclose the nature of any relationship you now have or have had in the past five years with any ERS Board member, consultant, general manager or staff.

B. PERSONNEL

14. Provide biographical sketches and an organization chart of key individuals in charge of master trust/custody services, the person responsible for our overall relationship and day to day services and back-up, the investment management liaison contact, and accounting/reporting contacts. How long have each of these people been in their current positions? Will you designate an individual to act as a consultant for our on-line services? Are the same people responsible for US and non-US assets? If domestic, foreign, commingled or other accounts are handled by different groups, provide an organization chart for each group and a brief description of key people's responsibilities.
15. How do you determine the number of accounts assigned to each Assistant Administrator? How many accounts are assigned to the account Assistant Administrator who would be assigned to ERS' account and what are the total assets under administration for this individual? How do you measure the performance of your professional staff? Do you promote from within? When would you hire an outsider?

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16. Provide the following information on personnel turnover in the master trust/custody unit for the last three years, differentiating between individuals leaving the firm and those transferring to other departments within the firm:

Departures:

Number of employees
Position titles
Length of service

Additions:

Number of employees
Position Titles

17. Describe training you provide to the client after conversion is completed. Also, describe ongoing educational sessions, user conferences, publications or other means you have for keeping clients fully educated and on changes and enhancements within your custody environment, for providing a forum for new ideas and needs. Are you able to provide different levels of training and education to ERS (at a minimum of forty (40) hours a year)?

C. CLIENTS

18. Provide the number of your master trust/master custody clients, both domestic and international. Report the aggregate value of the total assets in your custody in US\$ millions as of June 30, 2012. For the aggregate amount reported, separately classify US dollar denominated and foreign currency denominated assets.
19. Please provide the following information on the 10 largest client relationships included above:
- a. Total asset value in US dollars
 - b. The type of account (corporate, public, endowment)
 - c. Domestic, international or global custody
 - d. The year your firm was hired as custodian.
20. Provide the number of master trust/master custody accounts (domestic and international) gained or lost by year in the past three years ending June 30, 2012. Report the corresponding aggregate values for the total assets in US\$ millions. Provide a brief explanation for the account(s) lost.
21. Please provide the names, contact persons, phone numbers, and email addresses of all of your existing clients with more than \$5 billion in assets custodied. Public pension funds are preferred. We may contact all, some or none of the provided references. Please secure advanced approval for us to contact them. What is the median size public pension fund custody client?

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D. INTERNAL CONTROLS AND RISK MANAGEMENT

22. Describe the risk controls that ensure accuracy of the processing and reporting of the master trust/master custody department. Identify the internal and external entities that audit, regulate and/or review your custody services. Briefly discuss the frequency and scope of audits performed during the last three years. Include a copy of any formal policies, and provide a relational organization chart for this function. Label this as Exhibit I.
23. Discuss your policy for minimizing credit and market risk associated with deposits and investments, including repurchase agreements and derivatives in Short Term Investment Fund (STIF) and reinvestment of securities lending cash collateral.
24. Describe the type of Service Organization Control Reports (SOC 1, SOC 2, SOC 3) formerly the SAS 70 report issued by the proposer (type I or type II) and discuss its implications.

E. ADMINISTRATION AND CLIENT RELATIONS

25. Describe in detail your client relations process including:
 - a. Formal and informal oral and written communications
 - b. Inquiry and problem resolution processes
 - c. Transmitting information on available services
 - d. Training in the use of the services and access systems
 - e. Quality Assurance process
26. How do administrators ensure that master trust/custody services are provided to a client in accordance with proper standards of care, regulatory requirements, and the executed agreement for service?
27. Describe your systems and procedures for securing and providing clients with proxy information and pending corporate actions for domestic and international corporations. How do you monitor proxy processing, including the addition of new and terminated money managers? How do you manage the powers of attorney in non-US markets? Who do you work with in proxy management?

F. INVESTMENT MANAGER LIAISON

28. Describe your process for interfacing with your clients and their investment managers for trade settlement. Separately (if different processes) describe the differences in processing trade settlements between domestic and international custody, including a discussion of the following:
 - a. Dedicated staff positions and responsibilities
 - b. Modes and means of trade instruction communication and validation
 - c. Cash management support
 - d. Mode, timing and content of reports provided to clients and their investment

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- managers
 - e. Inquiry and problem resolution processes
 - f. Reconciliation and audit procedures
 - g. Support for managers located outside the US
29. Describe other functions handled or support provided by your investment management liaison group.

G. SECURITIES PROCESSING AND CUSTODY

30. Describe your trade affirmation services/systems. Describe your procedures for processing trade instructions for domestic and international securities; settling purchases and sales, identifying any distinctions for a) different asset classes, b) physical and book entry, and c) domestic and international.
31. Are there any restrictions as to the types of securities which may be held in safekeeping? If so, what are they? How do you handle the safekeeping of physical securities?
32. Provide a list of subcustodian relationships, including the length of time they have served in this capacity.
33. How frequently and by what means do you communicate trade instructions to sub-custodians? How are sub-custodians selected and monitored?
34. Discuss the distinctions in the level of control over the work by your foreign branches and subsidiaries versus sub-custodians who contract with your organization. How do you control for the difference?
35. Are assets held by you and your sub-custodians segregated in such a manner that they are not subject to the claims of creditors against your organization and the sub-custodians' organizations?
36. Discuss your procedures for tracking failed trades, reporting failed trades to clients and investment managers, and resolving failed trades, including aging statistics. Is there a standard report of failed transactions outstanding? How long will fails continue to show up on your 'fails' report?
37. What is your fail rate for securities sold or purchased, by country, for each of the last three years? What percentage of these fails were the fault of the custodian?
38. What depositories do you not actively participate in?
39. List any other services that you will provide to ERS or its external investment managers.
40. Describe your emergency management plan.
41. What are your policies regarding actual vs contractual settlement for domestic and

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international securities? Include any limitations or exceptions that will apply to ERS.

42. What controls or systems are currently in place to ensure that account activity is within the policy limits set by the client?
43. What methods are available to send trade instructions to you? What type of time restrictions do you require for domestic and global accounts?
44. What foreign exchange capabilities do you have? Please include in your discussion whether you are able to process third party exchange and any charges associated with executing FX transactions, hours of operation and the number of people involved.

H. INVESTMENT GUIDELINES COMPLIANCE AND MONITORING

45. How does your system integrate investment guideline compliance into the automated trading process and actively monitor transactions and portfolio composition?
46. Do you have different levels of compliance monitoring that you provide? Please describe all types of compliance monitoring you currently provide. Are there additional costs or fees for each level for your compliance monitoring services?
47. Is compliance monitoring performed for all asset classes? Is it performed daily? Is it on a post-trade or pre-trade basis? Is compliance tracking available online?
48. Are derivatives monitoring, risk control and compliance check services available to clients?
- 48.1 Is there a capability to process calls, distributions and other administrative tasks related to investments in private equity and real estate funds or other similarly structured private market investments? Please describe in detail.

I. TAX RECLAIM AND CORPORATE ACTIONS

49. Describe the processing of tax claims on foreign income, including:
 - a. Sources of information
 - b. Procedures for maintaining information on current treaty provisions
 - c. Processing steps for:
 - Filing to establish status for exemptions and reclamation
 - Filing reclamations for tax refunds
 - Collecting refunds
 - d. Identification of party responsible for each processing step
 - e. Procedures for accruing, reporting, aging and posting of reclaimable tax
 - f. Detail reported to clients
50. Describe your procedures for ascertaining domestic and international entitlements and accruals for corporate actions (stock splits, stock dividends, spin-offs, mergers/acquisitions, tenders, calls, warrants, maturities, etc.).

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51. Describe in detail your process for providing notice to clients of corporate actions requiring their decisions and notification from them prior to processing, including:
 - a. Methods of notifying clients
 - b. Methods of receipt of instruction from clients
 - c. Procedures for implementing client elections
 - d. Method and mode of relaying instructions to sub-custodians
 - e. Procedures for controlling sub-custodians' timely and appropriate action
52. How do you measure accuracy and timeliness of receipts of US and non US income and capital changes reported by your depositories, agents and sub-custodians?

J. CASH MANAGEMENT

53. Is there an automatic manager cash sweep into STIF? If so, how does it work? Do you propose to use the same STIF for the securities lending cash collaterals or a different STIF for this purpose?
54. Provide a description of domestic STIFs that are available, including their guidelines and fees appropriate for ERS' overnight investments. If proposing a commingled STIF fund for ERS, provide a certification that securities purchased by the commingled STIF fund are in compliance with Section 88-119, Hawaii Revised Statutes, as amended, and guidelines established by the ERS Board of Trustees. Describe any defaults, asset write-downs, cash infusions to preserve principal value or other problems that have occurred in the funds since their inception. Provide annual performance numbers net of fees going back five years from June 30, 2012, using a bond equivalent yield. Provide a fee schedule for STIF in basis points. Is there daily liquidity? For each commingled STIF proposed, identify the purpose of the fund and provide documentation. Label this as Exhibit B.
55. If a client overdraws an account for an overnight investment, will the client be charged the STIF rate for the overdraft?
56. If the bank erroneously debits an account overnight, at what rate will the bank reimburse the client for the overnight use of client funds at the STIF rate?
57. How often is STIF interest accrued and when is it credited?
58. What is your time deadline for a wire to be credited the same day? What is the time deadline for initiating wires?
59. Please describe the cash management section and provide biographies of the people involved in managing the STIF.
60. Describe your foreign exchange operations and capabilities. Please include in your discussion whether you are able to process third party exchange and any charges associated with executing foreign exchange transactions; the location of the primary foreign exchange desk and foreign exchange operations and their relationship to master custody; the hours of operation for the order takers and execution facilities;

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the number of people involved, timing requirements and response time, and currencies exchanged. Is there on-line access to foreign exchange information? Does your reporting system provide daily investable cash positions in local and translated US dollars (using current exchange rates)?

61. What provisions are there for the investment of non-dollar balances? Are there minimum balances required, if so what are they?
62. What is your policy on the collection and crediting of domestic and foreign dividend and interest payments? When are the funds credited and available for use? Provide a country-by-country analysis.

L. ACCOUNTING AND REPORTING

71. Describe your accounting services for the following domestic and international securities and transactions:
 - a. Dividends and interest, corporate actions, including mergers, acquisitions, tenders, stock splits and dividends, warrants and spin-offs
 - b. Fixed income and equity portfolios
 - c. Real estate portfolios
 - d. Private placements and 144A securities
 - e. Alternative investments- LBOs, venture capital, etc.
 - f. Foreign currency investments
 - g. Financial futures, forward contracts, options
72. Does your system report or accommodate trade date, contractual settlement date, actual settlement, or a combination? Are there any other methodologies available? Please explain.
73. Do your domestic and international account databases share the same operating platform? reporting structure? location? Are they integrated?
74. Describe your procedures and basis (e.g. average cost) for computing and reporting realized and unrealized gains and losses, for both currency and market, for US and non-US denominated securities.
75. Describe your process of computing and posting fail float, and your procedures for minimizing loss of STIF interest due to sell fails. Define any distinctions by security classification, country or other characteristics.
76. Provide information on your domestic and international primary and supplementary pricing sources including a description of your methods for pricing:
 - a. Publicly traded, liquid securities, and securities which are normally not available from pricing services such as domestic and international stock warrants, 144A securities, limited partnerships, etc.
 - b. Domestic and international derivative products, including forward currency contracts.

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77. Do you have the ability to price each portfolio including accrual items on demand, at least monthly (capacity to price publicly traded securities daily, others monthly)? Do asset valuations include accrued income and pending transactions?
78. Are holdings and transactions reported at both cost and market value?
79. Do the available reports include a reconciliation of the portfolio at the report beginning date and report ending date?
80. Describe the reports or raw data you provide to the clients for GASB 40 disclosures.
81. What procedures do you have in effect to flag and investigate unusual or significant pricing changes from the previous day? How are valuation differences resolved between the external investment managers and the custodian? What is the average time to resolve pricing differences on a seasoned asset backed security?
82. What is your source and how do you account for mortgage paydown information? Do you maintain a record of the original face amount purchased?
83. How soon after receipt are the principal payments from mortgage-backed securities credited to the account? Describe any guarantees your firm offers.
84. What standard reports are provided by your system - monthly, quarterly, annually and by exception? Do your standard reports include a report of domestic and international pending trade settlement and pending tax reclaims? Provide a sample of each from actual accounts. Label this as Exhibit C.
85. Do you provide multi-currency reporting? If yes, please describe. Does the report identify: country, industry, and security levels? Are reports available for the entire account as well as individual manager portfolios? Do you have the capacity to report in the local currency and translate to the reporting currency?
86. What steps are taken to take the reports from unaudited to fully audited? What reconciliations are performed?
87. How frequently do you reconcile your domestic and international records with depositories and your sub-custodians - cash, securities and corporate actions? Is this reconciliation manual or automated?
88. When are monthly audited portfolio statements provided as required by ERS, in hard copy and on-line after the close of business each month? How do you provide monthly, quarterly and annual year to date reports? hard copy? on-line? CD-ROM? cpu-cpu data transfer? Please provide a sample of your portfolio statements. Include these with Exhibit C requested above.
89. Describe your domestic and international on-line systems for clients and their external investment managers with regard to the type of data available [i.e. pending trades, accounting information, asset lists by account (cost and market value in local

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currency and US dollars), transaction history, summary of account market values for the portfolio, portfolio performance, and securities on loan]. When is this data available by electronic delivery, for view, download of standard or customized reports, download of raw data and report writer access?

M. PERFORMANCE MEASUREMENT

90. How many months of holdings and transactions data do you maintain for performance calculation purposes? Do you maintain archived data for ad hoc reporting requests?
91. Describe the performance evaluation services available for US and for non-US holdings. Are these services available on-line? If the reports are available on-line, can they be customized? Which reports are available as part of this proposal? Which service would we have to pay for separately?
92. Can you compare rates of return of our managers vs. those of a substantial universe of comparable funds? What universes do you offer? How many managers are tracked on your performance database? List and describe the categories.
93. List indices available and their earliest dates of data availability. Do you provide access to outside databases such as Barra's risk factors?
94. Do you use dollar weighted or time weighted rates of return? Are the market values used in performance calculations adjusted for accruals?
95. How frequently are performance measurement analytics done, and how soon are reports based on fully audited numbers available following period-end? Are private investment performance data (real estate and private equity) reconciled with managers and/or consultant? Are both net and gross of fee performance results available for inclusion in performance reports?
96. If you provide both domestic and international performance, are the systems integrated or are different systems utilized for generating domestic and international performance?
97. Please describe what standards are used in calculating and reporting performance measurement results for clients. What are the quality assurance processes in place?
98. Do you have drill down capabilities for commingled funds?
99. Provide a sample performance report including risk/return analysis, universe comparison charts, rankings, and fund attributions. Label this as Exhibit D.
100. Describe your capabilities to provide analytics and/or performance measurement comparisons or benchmarks linked to your company's databases or other provider databases for the ERS to conduct peer performance analysis and generate staff searches for managers.

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N. SECURITIES LENDING

100. Describe your domestic and international securities lending capabilities.
101. Provide the names of key staff and their experience in the industry and with your firm.
102. Does your organization have a risk and compliance manager monitoring the securities lending program? How does the manager accomplish his/her mandate objectively?
103. What do you consider the risks in securities lending? How do you manage these risks?

Revenue Projections:

104. Describe anything that differentiates your style of lending that would complement the returns expected from lending our portfolio. Describe anything that would limit or restrict those returns. Why should ERS choose your firm as its securities lending agent?
105. What is the dollar size of your securities lending operation? Do you have any capacity limitations on your program? If so, please explain.
106. What has your earnings track record been with your existing clients?
107. What is the securities lending split between your clients and you?
108. List the asset classes or types of securities you do NOT lend. Why do you not lend them?
109. Provide a list of tax issues for each country that you lend in that ERS should be aware of.
110. Describe your loan allocation system. Do you provide equal opportunity to all participating clients to lend their securities?
111. State whether you will act as principal or agent. If you act as principal, how do you control for conflict of interest?
112. How are recalls and income collection handled for securities out on loan?
113. Will you guarantee that loaned securities will be available for delivery if notification of sale is made to you on trade date plus 1? If the borrower fails to return the loaned security(ies) by settlement date, do you reimburse your clients for lost STIF income or for any additional costs which might result from a buy-in?
114. Describe your reporting for securities lending. Is securities lending data available on-line? How much report format flexibility is available? Provide copies of your securities lending reports. Label this as Exhibit F.

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Credit Considerations:

115. Who are your securities lending borrowers and how are they selected and monitored? Describe how credit analysis is performed. Do the borrowers have a minimum credit rating, if so what? How often are the individual borrowers reviewed?
116. Can a client select, eliminate or limit loans to a given borrower? on a given security?
117. What are your collateral requirements and how are they determined and monitored? How do they compare to regulatory, industry and other standards, i.e., are they stricter, looser, etc.? Describe your procedure and frequency of marking to market your securities on loan. Attach a copy of your policies. Label this as Exhibit H.
118. What indemnification do you provide clients with respect to risk of counter-party default?
119. Have your clients ever sustained a loss or collateral deficiency as the result of your securities lending activities? If yes, please explain and include the magnitude of the loss. Did you cover the loss(es)? What impact did the credit environment in 2007 and 2008 have on your securities lending collateral pool?

Cash Collateral Reinvestment Portfolio Parameters:

120. What are your collateral reinvestment portfolio objectives and how are they determined?
121. What investment vehicles are eligible for reinvestment of securities lending cash collateral? Provide the returns and guidelines for these Funds. Also provide summaries of the options, including risk/return parameters and describe the team and process for managing the cash collateral portfolios. Label this as Exhibit G, if not included in Exhibit A.
122. What are the duration/maturity limitations pertaining to individual investments and the overall cash collateral reinvestment portfolio for these vehicles?
123. What credit standards are applied to the cash collateral reinvestment portfolio and how are they monitored?
124. What protection do you provide clients with respect to collateral reinvestment dealer default, or market loss?

SECURITIES LENDING ESTIMATED REVENUE CALCULATION:

125. Provide an estimate of your program's securities lending program revenue using ERS' 6/30/2012 portfolio holdings as shown in Attachment 4.

Revenue Projections (based on ERS portfolio holdings information provided):

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Estimated daily average lendable base: \$ _____

Estimated daily average securities out on loan (A): \$ _____
(Utilization Rate = %)

Projected average rebate rate (at current market levels): %

Projected reinvestment rate (at current market levels): %

Projected yield spread on securities lent (B): %

Percentage of lendable income to ERS (Split %)(C): %

Annual Revenue Estimate: (A) x (B) x (C) x 365: \$ _____

Assumptions – List significant assumptions or comments that impact your lending estimate.

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O. TECHNOLOGY

126. Briefly describe your computer system's capacity and the volume of transactions which can be processed in a day. Also briefly describe the primary & secondary hardware and data processing configurations which serve your operations.
127. When was the software to be used for the ERS account developed? Was it developed internally or externally? How long has the current system been in place?
128. What was the percentage of downtime during the past 2 years by systems that are proposed to serve ERS needs? The number of occurrences? What were the primary causes and how were the problems corrected? How long was the average amount of down time per occurrence? Do you provide 24 hour support?
129. Do you currently run your software in a Windows environment? If so, please specify the Operating System, Applications and versions.
130. Differentiating between domestic master trust/custody and non-US master trust/custody systems, what has been the investment in systems development for the master trust/custody systems for each of the past 5 years? Discuss both the amount budgeted and what was purchased. What are your systems development plans for the next 5 years? What do you believe is the largest deficiency in your system? How are you going to address this?
131. Please describe any investments which might become necessary because of recent acquisitions of other master trust/custodial firms.
132. How do you receive and provide information electronically to the client or third party vendors?
133. What equipment or software is necessary for ERS staff to receive on-line services (include minimum and recommended configurations and versions)? Is this equipment and/or software provided, maintained, and upgraded as part of your service?
134. What are the hours of operation (availability in Hawaii time) for your on-line systems?
135. Describe your disaster recovery plan. Provide an estimate of the maximum elapsed time before the restoration of processing to ERS' transactions in the event of disaster to the custodian's primary processing facility. Describe your plan to process until restoration of your system is complete. Describe what you could do for us in the event of a physical disaster in Honolulu.
136. Describe your process for file back-up and off-site storage, including frequency and location:
 - Data
 - Software

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137. Describe your process of incorporating program changes into your operating system and application systems. How often (and for how long during each occurrence) is your system brought down for maintenance?
138. Do you outsource any of your I.T. related functions? If so please indicate the type of function, percentage outsourced, date it was outsourced and end of agreement.
139. How far back is the data available online by functional area? Please identify what is available to the ERS' user compared to your internal staff.
140. Is there a charge for archival retrieval? If so, please specify the amount.

P. TRANSITION/CONVERSION

138. Provide a detailed task listing and schedule on how you would approach the conversion process, including actions required on the part of ERS and the time frame to complete each task. Clearly describe the conversion process: who is responsible for coordinating activities, who must participate and what activities must occur. Detail the type and amount of resources required from ERS.
139. Would you convert the historical performance and transaction data from the former custodian?
140. What dedicated resources (personnel, equipment, training, consultants, etc.) procedures and controls will you provide or recommend in the transition/conversion period to ensure that the conversion process is completed successfully in a timely and accurate manner?
141. Give a detailed description of your last comparable conversion, including the details of specific problems that occurred and the solutions instituted.
142. Provide a summary of the problems which you might reasonably expect to occur during this conversion and your approaches to those anticipated problems. Are there any blackout periods associated with the conversion?
143. Describe the process for transfer of physical securities. How do you handle historical data during the conversion process?
144. What costs would be associated with a conversion?
145. What key concerns for ERS do you see for each of your top 5 competitors for:
 - a. custody
 - b. third party securities lending

Concerns may include pricing; technology; reliability; user friendliness; capability; firm stability; client service; staffing; personnel turnover; size fit; product availability; reputation in the marketplace, etc.

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Q. TERMS AND CONDITIONS OF CONTRACT

146. Affirm that the provisions of the sample contract in Form of Contract (Attachment 5) are acceptable or state any proposed modifications. ERS reserves the right to decline or classify as "unresponsive" any substantive changes, modifications, or revisions to the provisions of the sample contract.

Identify any exceptions to provisions of the sample contract in Attachment 5. Label this as Exhibit J.

CERTIFICATION

The following certifies that all services and systems described are available, deliverable, and performed by professionals abiding to the highest fiduciary standards. In addition, audits performed by independent parties are diligently accomplished and documented. The undersigned hereby certifies that he or she is authorized to execute this EOI on behalf of _____ and that the information, commitments, representations, and other provisions of the foregoing EOI are true and correct.

Name _____

Signature _____

Title _____

Date _____

END OF EOI

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Attachment 1
Evaluation Criteria

	Total Points
A. Background, Organization, Personnel, Clients, Administration, Client Relations, and Investment Manager Liaison	15
B. Securities Processing, Custody, Cash Management, Internal Controls, and Risk Management	15
C. Accounting, Reporting, Tax Reclaims and Corporate Actions	15
D. Performance Measurement and Investment Guidelines and Compliance	15
E. Technology, Transition and Conversion	10
F. Securities Lending (Qualitative Factors)	10
G. Fees (Custody, Performance Measurement, Investment Guidelines and Compliance, Securities Lending, STIF and others) **	20

Note: ** For evaluation purposes, fees are separated into three categories:

- A. Custody, Performance Measurement, Investment Guideline Compliance:
- B. Securities Lending (Proposed Split –ERS/Mgr %, Cash Collateral Fees); and
- C. Fees for STIF.

Securities Lending Fees are weighted significantly more than Custody Fees and STIF Fees;. Custody Fees and STIF fees will have equal weight.

Attachment 2 Securities Lending Guidelines

The policies and guidelines governing securities lending shall be with the master custodian, unless contracted otherwise. A *separate contract*, distinct from a master custody relationship, detailing the type of securities lending relationship and program is both mandatory and essential in the treatment of securities lending as, foremost, an investment function with the associated risks and return implications, and fiduciary responsibility.

Objective

The securities lending provider has to exercise investment discretion within the overall objective of: preserving principal; providing a liquidity level consistent with market conditions and the lending and trading activities of the ERS; and maintaining full compliance with stated objectives and statutory provisions. The securities lending provider shall exercise prudence and expertise in managing the cash collateral reinvestment function.

Program Guidelines

Maintenance of the integrity and operational functionality of the securities lending program shall be pursued with utmost diligence. The securities lending provider shall have documented policies and procedures in place detailing the following if not stipulated in the securities lending contract for both domestic and international securities.

- Borrower Limits/Creditworthiness
- Acceptable Collateral
- Marking to Market
- Corporate Actions/Distributions
- Proxy Voting Limitations
- Recall of Loaned Securities
- Revenue Splits
- Valuation and Reporting of Loaned Securities and Cash Collateral Reinvestments
- Borrower Risk (Default)
- Cash Collateral Reinvestment Risk
- Operational Negligence
- Counterparty Indemnification
- Other relevant policies

The securities lending provider shall at all times exercise prudence and due care and shall comply at all times with Section 88-121.5, Hawaii Revised Statutes (see Attachment 7) and all other applicable laws, rules and regulations of federal, state and local entities or agencies having jurisdiction, including but not limited to banking and securities regulatory bodies, taxation authorities and the US Department of Labor.

Collateral Management

The securities lending provider shall exercise prudence and reasonable care in discharging its discretion in the investment management of cash and non-cash collateral, including asset/liability (gap) management that is

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appropriate relative to the market environment or conditions that the securities lending provider is operating in.

Provided that the management of collateral, specifically cash, imposes the greater risk, the securities lending provider shall adhere to the overall investment objective of ERS. Policies regarding issuer, credit, exposure and rating limits utilized in the securities lending program per investment vehicle shall be under the full discretion of the provider, and appropriate and consistent with the stated general guideline. Issues such as exposure guidelines, prohibited securities for cash investment, duration strategies, and matched and mismatched book are both strategic and tactical investment functions and shall be consistent with the above objective.

Cash collateral reinvestment emanating from securities lending shall be in compliance with the stated investment policies and guidelines of the ERS for short term and/or fixed-income investments where applicable. The investment policies and guidelines governing securities lending shall not be any different, unless contracted or exempted otherwise.

Each securities lending provider shall provide documentation of its collateral reinvestment fund detailing the following:

Investment Management

Eligible Cash Market Instruments

Eligible Derivative Instruments

Credit Quality

Corporate Obligations

Instruments of US and Foreign Banks

Sovereign Debt Obligations

Repurchase Agreement

Commingled Funds

Investment Restrictions and Concentration Limits

Liquidity and Investment Maturity

Policy Adjustments and Exceptions

Investment Limitations, Prohibited Transactions and Restrictions on Self Dealing

Prohibited Transactions and Securities

The following instruments and "exotic derivatives" are deemed inappropriate for the reinvestment of cash collateral and are prohibited in ERS accounts. Leverage is strictly prohibited.

- highly leveraged structured notes
- range floaters
- COFI floaters
- Dual Index Floaters
- Inverse floaters and leveraged floaters

Permitted Investments

Permitted Investments for cash collateral shall be those adopted by the ERS Board of Trustees from time to time and set forth in the Policies and Procedures Manual of the Board of Trustees of the ERS. As of 6/30/2007 the following are Permitted Investments.

1. Securities and Exchange Commission (SEC) Rule 2a-7 money market mutual fund.
2. Securities issued or guaranteed as to principal and interest by the Government of the United State or issued or guaranteed by agencies or instrumentalities thereof.
3. High-grade commercial paper and commercial paper master notes, whether or not registered under the Securities Act of 1933, as amended, and promissory notes:
 - a. Obligor rated "A-1, P-1, or F-1"
 - b. Obligor rated "A-2, P-2, or F-2"
4. Corporate obligations, marketable high-grade fixed, floating and variable rate notes and bonds. At the time of purchase the maximum option adjusted duration of any variable-rate security shall be 7 years or less
5. Asset backed securities rated A/A2 or above
6. Certificates of deposit and other bank deposit obligations of U.S. banks or U.S. branches or subsidiaries of foreign banks. At the time of purchase, the issuing bank must have a short-term debt rating not lower than "A-1, P-1, or F-1" and long-term debt rating not lower than "A-, A-3", or the equivalent thereof.
7. Bankers' acceptances issued by U.S. banks or issued in the U.S. by branches or subsidiaries of foreign banks. At the time of purchase, the issuing bank must have a short-term debt rating not lower than "A-1, P-1, F-1" and a long-term debt rating not lower than "A-, A3", or the equivalent thereof.
8. Repurchase agreements with respect to the following:
 - a. U.S. government securities, agencies, sovereigns, supranationals, commercial paper, asset-backed securities, mortgage-backed securities (only pass-throughs), corporate bonds, mortgages and equities
9. Sovereign debt rated A or better.
10. Securities, units or other participations in any short-term investment fund that invests in any or of the types of investments approved above.
11. Capped floaters, provided that Contractor shall notify State of the usage of such securities and shall employ appropriate risk assessment and manage expertise as specified by the Office of the Comptroller of the Currency.
12. CMT floaters, provided that Contractor shall notify State of the usage of such securities and shall employ appropriate risk assessment and manage expertise as specified by the Office of the Comptroller of the Currency.

Acceptable Forms of Collateral
(6/30/2007)

- Cash (U.S. and Euro currency);
- Securities issued or guaranteed by the United State government or its agencies or instrumentalities;
- Sovereign debt (denominated in U.S. dollars or Euros);
- Canadian Provincial Debt (denominated in U.S. dollars);
- Irrevocable Letters of Credit; and
- Such other Collateral as the parties may agree to in writing from time to time.

Attachment 3
Operating Systems in use by ERS

ERS' systems reside on a Microsoft Windows platform and utilize Oracle for its databases.

The *Accounting and General Ledger System* (Oracle Financials – E-Business Suite) is installed and accounts for and provides financial information on the ERS' investment portfolio, retirement benefit payments, and administrative expenses.

Operating System / Application	Version	Remarks
Windows Server 2003	Standard Edition	None
Oracle Financials	10.1	ERS plans to upgrade by end of year to most current version.
Oracle Database	9.2	ERS plans to upgrade by end of year to most current version.
Miscellaneous:	Server 2003 & 2008 both Enterprise & Standard	Exchange, File & Print Servers, Active Directory, Internet Access, etc.
Window Desktop:	XP, 2000 & Windows 7	Desktops in accounting also run Oracle Desktop ADI
Microsoft Office (Excel, Access, Word)	2000, 2003 & 2010	Accounting uses Access 2000 all others are 2003 & 2010

Attachment 4
Asset Holdings of ERS

Attachment 4, Asset Holdings of ERS is a Microsoft Excel file (custodyeoi-attach4-AssetHolding.xls) on the CD-ROM containing the detailed listing of security holdings for ERS as of June 30, 2012. The file contains security positions, by account managers, for assets reported in ERS' custodian accounting records.

- Securities not held in custody for this EOI are identified as Securities Held Elsewhere (SHE) on the listing are will posted to accounting records via book entry only.

- The file does not contain the following:
 - Foreign exchange contracts
 - Trade payables
 - Trade receivables
 - Pending income items
 - other miscellaneous assets

Account Structure – Refer to the Overview section of the EOI for additional information on the existing ERS account structure.

Cash and STIF balances

The active investment managers usually hold less than \$30 million for all currencies, out of approximately US\$11.3 billion in assets under management. Almost all of these monies are foreign currencies for international trade settlements.

The average daily short-term investment funds, excluding securities lending collateral, held by ERS at the global custodian was approximately \$430 million during the fiscal year ended June 30, 2012, including all cash reserve/cash fund accounts.

Balances fluctuate based on employer and member contributions; investment management decisions, investment funding, and operational requirements.

Attachment 5
Form of Contract

(Refer to the Hard Copy File)

Attachment 6
Chart of Accounts

(Refer to the Spreadsheet File)

Attachment 6, ERS' Chart of Accounts is a Microsoft Excel file (custodyeoi-Attach6OracleAcctCodes.xls) on the CD-ROM containing the general ledger account structure with listings of certain account code sections.

ERS uses a seven part combination:

- Company – 2 characters – Company reference for summary reporting
- Fund – 2 characters – Fund accounting reference
- Object – 5 characters – GL account line
- Cost Center – 4 characters – Cost or profit center to track activities; for investments specifies reporting group of investment manager(s)
- Budget year – 4 characters – To track funds by fiscal year budget. Generally not used for investments.
- Appropriation – 5 characters - To track funds by appropriation authorization. Generally not used for investments
- Project – 4 characters - To track revenue and expense by project across multiple fiscal years, cost centers and budget appropriations. Generally not used for investments

The investment accounting processes primarily use the Fund, Object and Cost Center components of the account structure

Note: Default value for individual segments of combinations is zero-filled field.

Attachment 7

CHAPTER 88: HAWAII REVISED STATUTES AS AMENDED 2006 Investments and Securities Lending Related Sections

ERS is governed by chapter 88 of the Hawaii Revised Statutes. If you would like to access an unofficial online version of chapter 88, you may do so at the Hawaii State Legislature website -- <http://www.capitol.hawaii.gov>; click on the tab for Bill Status and Documents.

The following sections of Chapter 88, Hawaii Revised Sections are provided for your reference:

- § 88-119 Investments
- § 88-119.5 Investment guidelines
- § 88-120 Service charges
- § 88-121 Power to make agreements to protect securities on reorganization or otherwise
- § 88-121.5 Power to enter into security loan agreements

§88-119 Investments. Investments may be made in:

- (1) Real estate loans and mortgages. Obligations (as defined in section 431:6-101) of any of the following classes:
 - (A) Obligations secured by mortgages of nonprofit corporations desiring to build multirental units (ten units or more) subject to control of the government for occupancy by families displaced as a result of government action;
 - (B) Obligations secured by mortgages insured by the Federal Housing Administration;
 - (C) Obligations for the repayment of home loans made under the Servicemen's Readjustment Act of 1944 or under Title II of the National Housing Act;
 - (D) Other obligations secured by first mortgages on unencumbered improved real estate owned in fee simple; provided that the amount of the obligation at the time investment is made therein shall not exceed eighty per cent of the value of the real estate and improvements mortgaged to secure it, and except that the amount of the obligation at the time investment is made therein may exceed eighty per cent but no more than ninety per cent of the value of the real estate and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the system's exposure to not more than eighty per cent of the value of the real estate and improvements mortgaged to secure it. The insurance coverage shall remain in

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force until the principal amount of the obligation is reduced to eighty per cent of the market value of the real estate and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the board. Real estate shall not be deemed to be encumbered within the meaning of this subparagraph by reason of the existence of any of the restrictions, charges, or claims described in section 431:6-308;

- (E) Other obligations secured by first mortgages of leasehold interests in improved real estate; provided that:
 - (i) Each leasehold interest at the time shall have a current term extending at least two years beyond the stated maturity of the obligation it secures; and
 - (ii) The amount of the obligation at the time investment is made therein shall not exceed eighty per cent of the value of the respective leasehold interest and improvements, and except that the amount of the obligation at the time investment is made therein may exceed eighty per cent but no more than ninety per cent of the value of the leasehold interest and improvements mortgaged to secure it;provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the system's exposure to not more than eighty per cent of the value of the leasehold interest and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty per cent of the market value of the leasehold interest and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the board;
- (F) Obligations for the repayment of home loans guaranteed by the department of Hawaiian home lands pursuant to section 214(b) of the Hawaiian Homes Commission Act, 1920; and
- (G) Obligations secured by second mortgages on improved real estate for which the mortgagor procures a second mortgage on the improved real estate for the purpose of acquiring the leaseholder's fee simple interest in the improved real estate; provided that any prior mortgage does not contain provisions that might jeopardize the security position of the retirement system or the borrower's ability to repay the mortgage loan.

The board may retain the real estate, including leasehold interests therein, as it may acquire by foreclosure of mortgages or in enforcement of security, or as may be conveyed to it in satisfaction of debts previously contracted; provided that all the real estate, other than leasehold interests, shall be sold within five years after acquiring the same, subject to extension by the governor for additional periods not exceeding five years each, and that all the leasehold interests shall be sold within one year after

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- acquiring the same, subject to extension by the governor for additional periods not exceeding one year each;
- (2) Government obligations, etc. Obligations of any of the following classes:
 - (A) Obligations issued or guaranteed as to principal and interest by the United States or by any state thereof or by any municipal or political subdivision or school district of any of the foregoing; provided that principal of and interest on the obligations are payable in currency of the United States; or sovereign debt instruments issued by agencies of, or guaranteed by foreign governments;
 - (B) Revenue bonds, whether or not permitted by any other provision hereof, of the State or any municipal or political subdivision thereof, including the board of water supply of the city and county of Honolulu, and street or improvement district bonds of any district or project in the State; and
 - (C) Obligations issued or guaranteed by any federal home loan bank including consolidated federal home loan bank obligations, the Home Owner's Loan Corporation, the Federal National Mortgage Association, or the Small Business Administration;
 - (3) Corporate obligations. Below investment grade or nonrated debt instruments, foreign or domestic, in accordance with investment guidelines adopted by the board;
 - (4) Preferred and common stocks. Shares of preferred or common stock of any corporation created or existing under the laws of the United States or of any state or district thereof or of any country;
 - (5) Obligations eligible by law for purchase in the open market by federal reserve banks;
 - (6) Obligations issued or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, or the African Development Bank;
 - (7) Obligations secured by collateral consisting of any of the securities or stock listed above and worth at the time the investment is made at least fifteen per cent more than the amount of the respective obligations;
 - (8) Insurance company obligations. Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in Hawaii, including its separate accounts, and whether the investments allocated thereto are comprised of stocks or other securities or of real or personal property or interests therein;
 - (9) Interests in real property. Interests in improved or productive real property in which, in the informed opinion of the board, it is prudent to invest funds of the system. For purposes of this paragraph, "real property" includes any property treated as real property either by local law or for federal income tax purposes. Investments in improved or productive real property may be made directly or through pooled funds, including common or collective trust funds of banks and trust companies, group or unit trusts, limited partnerships, limited liability companies, investment trusts, title-holding corporations recognized under section 501(c) of the Internal Revenue Code of 1986, as

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- amended, similar entities that would protect the system's interest, and other pooled funds invested on behalf of the system by investment managers retained by the system;
- (10) Other securities and futures contracts. Securities and futures contracts in which in the informed opinion of the board it is prudent to invest funds of the system, including currency, interest rate, bond, and stock index futures contracts and options on the contracts to hedge against anticipated changes in currencies, interest rates, and bond and stock prices that might otherwise have an adverse effect upon the value of the system's securities portfolios; covered put and call options on securities; and stock; whether or not the securities, stock, futures contracts, or options on futures are expressly authorized by or qualify under the foregoing paragraphs, and notwithstanding any limitation of any of the foregoing paragraphs (including paragraph (4)); and
- (11) Private placements. Investments in institutional blind pool limited partnerships, limited liability companies, or direct investments that make private debt and equity investments in privately held companies, including but not limited to investments in Hawaii high technology businesses or venture capital investments that, in the informed opinion of the board, are appropriate to invest funds of the system. In evaluating venture capital investments, the board shall consider, among other things, the impact an investment may have on job creation in Hawaii and on the state economy. The board shall report annually to the legislature on any Hawaii venture capital investments it has made; provided that if the board determines it is not prudent to invest in any Hawaii venture capital investments the board shall report the rationale for the decision. The board, by January 1, 2008, shall develop criteria to determine the amount of funds that may be prudently invested in Hawaii private placement investments.

§88-119.5 Investment guidelines. Notwithstanding any other law to the contrary, real estate loans and mortgages made pursuant to section 88-119(1)(D) and (E) shall be in accordance with conditions and restrictions set forth by the board of trustees; provided that the board may establish the minimum and maximum loan amounts and interest rates for these real estate loans and mortgages by motion, at any duly noticed meeting of the board. The board of trustees, subject to chapter 91, shall adopt, amend, and repeal rules having the force of and effect of law to implement all provisions of this section other than those relating to loan amounts and interest rates for its real estate loans and mortgages.

§88-120 Service charges. The board of trustees may pay out of any of the several funds held for investment, a reasonable amount to any person for servicing and handling of mortgages purchased by the board or for supplying investment advisory or consultative services; and to meet such other costs incident to the prudent investment of system funds as the board may approve.

§88-121 Power to make agreements to protect securities on reorganization or otherwise. Anything in this part to the contrary notwithstanding, the board of trustees may enter into an agreement or agreements for the purpose of protecting the interests of the system in securities held by the system, or for the purpose of reorganization of a corporation which issued securities so held, and deposit of

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securities thereunder with a committee or depositories appointed under the agreement, but the agreement and deposit must first be approved in writing by a majority of the members of the board with a statement of their reasons for such approval. The board may accept corporate stock or bonds or other securities, which may be distributed pursuant to any such agreement approved as aforesaid or to any plan or reorganization approved in writing by a majority of the members of the board with a statement of their reasons for such approval. But if securities so received consist in whole or in part of stock in any corporation or of bonds or obligations which are not secured by adequate collateral security or where less than two-thirds of the total value of the required collateral security therefor consist of collateral other than stock, then any stock and any such bond or obligation so received shall be disposed of within five years from the time of acquisition or before expiration of such further period or periods of time as may be fixed in writing for that purpose by the governor.

§88-121.5 Power to enter into security loan agreements. Anything in this part to the contrary notwithstanding, the board of trustees may enter into an agreement or agreements with a financially responsible stock or bond brokerage firm, bank, or similar financial institution ("borrower") authorized to do business under the laws of any state or the United States, for the purpose of lending to the borrower securities held by the system, subject to the following conditions:

- (1) The securities shall be loaned to the borrower for a period not to exceed one year;
- (2) At the termination of the loan period, the borrower shall deliver to the board of trustees certificates for identical securities which are of the same class and issue as the loaned securities;
- (3) For the protection of the system, the borrower shall deliver to the board of trustees or its agent, collateral in the form of cash, letters of credit, bonds, or other interest-bearing notes and obligations of the United States or federal instrumentalities which are eligible for investment by the board of trustees, in an amount not less than one hundred two per cent of the market value of the loaned securities, as determined by the board of trustees. The system shall have a security interest in the collateral to secure borrower's obligations under the agreement. The board of trustees shall not be obligated to return the collateral or any part thereof to the borrower, except upon borrower's delivery to the board or its agent of securities identical to the loaned securities, as provided in paragraph (2). The board of trustees or its designated agent shall monitor the market value of the loaned securities daily, and if, on any business day, the amount of the collateral deposited by the borrower is less than one hundred two per cent of the market value of the loaned securities on that day, the borrower shall immediately deposit with the board or its agent additional collateral in the form of cash, letters of credit, bonds, or other interest-bearing notes and obligations of the United States or federal instrumentalities which are eligible for investment by the board of trustees. Such additional collateral, together with the collateral previously on deposit, shall be in an amount not less than one hundred two per cent of the market value of the loaned securities at the time of such deposit;
- (4) The board of trustees, at its election, may use or invest any collateral delivered by a borrower to the board or its agent pursuant to the agreement, and any income and profits

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earned on the collateral shall be retained for the benefit of the system. Any investment of the collateral shall be subject to section 88-119;

- (5) Until the termination of the loan, the borrower may securities, including the right to transfer the loaned securities to others and vote or otherwise consent as a holder of such securities; provided that the borrower shall exercise all the incidents of ownership of loaned be obligated to the board of trustees for all dividends and distributions made with respect to the loaned securities during the period of the agreement, including, without limitation, cash, stock or property dividends or distributions, interest payments, and subscription rights;
- (6) In the event that the borrower, at the termination of the loan period, fails to deliver to the board of trustees certificates for identical securities which are of the same class and issue as the loaned securities, the borrowers shall forfeit to the system the collateral deposited.

Attachment 8
ERS Board of Trustees Investment Practices

ERS BOT Policies and Procedures Manual:
Electronic version attached

Attachment 9

ERS INVESTMENT STATISTICS

Please refer to Attachment 5 – Asset Holdings of ERS for the detailed listing of securities at June 30, 2012 and the table in the overview for totals by manager and type of account. The following summarizes the number of ERS investment transactions for the fiscal year ended June 30, 2012. Future transactions volumes may differ from the estimates provided.

Transactions	Count
Trades - Buys	16,000
Trades - Sales	13,500
Checks and Money Transfers Wire Out	Approx 1,200
Money Transfers Wire In	Approx 1,200
Currency Exchange Contracts (Buy/Sell)	4,500
Write Options/Futures	1,500
Trades Others Country	
Australia	185
Brazil	534
Canada	303
Cayman Islands	32
Chile	68
China	573
Denmark	43
European Economic Union	1,164
Hong Kong	97
India	234
Indonesia	94
Israel	35
Japan	525
Korea	505
Malaysia	128
Mexico	205
Norway	25
Philippines	48
Poland	87
Russian Federation	105
Singapore	53
South Africa	205
Sweden	69
Switzerland	125
Taiwan	736
Thailand	94

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Turkey	88
United Kingdom	486
Others	<25

Attachment 10

ERS 2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Is available on our website at <http://ers.ehawaii.gov/resources/financials>