

NEIL ABERCROMBIE  
GOVERNOR



**STATE OF HAWAII**  
EMPLOYEES' RETIREMENT SYSTEM

November 2, 2012

ADDENDUM NO. 1  
Request for Expression of Interest,  
Issued October 1, 2012  
for the Employees' Retirement System  
State of Hawaii

Offerors:

Please replace the following pages with the attached revised pages:

Page(s)	Description
7, 8, 9 and 11	Deadline for Submission of the Response: <b>December 4, 2012.</b>

Questionnaire: 20, 24, 33	<b>Describe the procedures used to ensure continuity of service within each group during natural or other disasters.</b>
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All other conditions remain the same.

Very truly yours,

A handwritten signature in blue ink that reads "Wesley K. Machida".

Wesley K. Machida  
Administrator



Employees' Retirement System  
of the State of Hawaii

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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 **December 4, 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 **December 4, 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) **December 4, 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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**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	<b>December 4, 2012</b>
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).

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 within each group during natural or other disasters.**
  - 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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- 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. **Describe the procedures used to ensure continuity of service within each group during natural or other disasters.**
41. What are your policies regarding actual vs contractual settlement for domestic and

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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. **Describe the procedures used to ensure continuity of service during natural or other disasters.**
136. Describe your process for file back-up and off-site storage, including frequency and location:
  - Data
  - Software